Uncle Sam and Commerce, Dr. W. L. Thorp. Why have canal-boat prosperity? Russian rubles and recovery.

CREDIT and FINANCIAL MANAGEMENT

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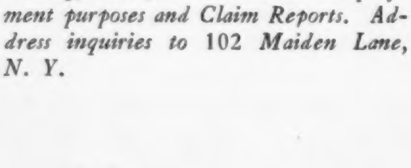

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INVOICE
INVOICE
YOUR INVOICE
PAID
NOT PAID

CONTENTS FOR NOVEMBER, 1933

Looking ahead

It may be well to keep a close watch on this issue of Credit and Financial Management for you will undoubtedly wish to refer to it when the next month's number arrives. Included in our December publication will be several articles tying in closely with material presented this month.

For instance: Mr. Tregoe continues his story of the growth of the N.A.C.M.; Mr. Benjamin elaborates on his ideas relative to gauging "capacity to pay"; Mr. Andersen develops his study of what constitutes below-cost selling.

Besides these items there will be a forum discussion between two featured writers on prices and price-fixing, an article on insurance and credits, and all of our regular departmental features.

Our cover

Industrial recovery is still the subject of the hour and this month our front page presents a forceful oil painting illustrating the idea behind the N.R.A. movement. It is presented through the courtesy of Continental Casualty Company of Chicago, Ill., who have given us permission to use it.

CREDIT and FINANCIAL MANAGEMENT

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Volume XXXV Number 11

Erie Avenue, F to G Streets, Philadelphia, Pa.
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Honest people

The time for the opening of the Credit Conference had arrived. His Honor the Mayor was seated on the platform awaiting introduction so that he might welcome the several hundred visiting guests and tender them the keys of the city. He was a big, portly man and he spoke in a commanding tone of voice. Beginning with the usual welcoming phrases, that had a ring of sincerity and cordiality, he proceeded to depict the beauties of the city. He spoke of the wonderful parks, the playgrounds, the fine educational facilities. The city, he assured us, was a home city, of industrious, kindly, honest people. He boasted of the many, many churches in the city and their fine influence upon the community. He spoke of the need of a spiritual community, of the sordidness of constantly seeking material things while starvation of soul was permitted to go on unheeded. He hoped we would be privileged to drive about the place and enjoy its beauty, ramble through its wonderful parks, visit its splendid school system and if possible worship in one of its many churches. He closed with an inspirational appeal for the building of character, of integrity, of the true value of the homely virtues of honesty and thrift in this day and age of strife and trouble. His welcoming address brought forth an ovation.

In acknowledgment, the Chairman spoke in glowing terms of the fine abilities of the Mayor and felt particularly grateful to him for having come to give his address of welcome, informing the audience that the Mayor was pressed for time since he was leaving very shortly on a trip to Washington. The Chairman proceeded to tell us that the Mayor's opinion and judgment were highly respected in the capital city and that his fame and good name were known far and wide beyond the city in which he lived.

As is my custom, I walked to the rear of the room to thank the Mayor on behalf of the National Association for his fine, sincere welcoming address. Then I expressed the hope that he would have a fine trip to Washington, and that his important mission, whatever it might be, would be fruitful. "Oh, I think I'll put it over all right," he said, rather confident and blustering-like. "I am going to get a bill put through to amend the Bankruptcy act," he added, "which will permit municipalities to take advantage of bankruptcy."

For a moment I stood stunned. Then in a matter of fact way I started back towards the conference room. I had scarcely taken five or six steps before I felt he simply must not go unchallenged. By the time I turned he had almost reached the revolving door that led to the street. "Mr. Mayor," I shouted at his disappearing figure, "are any of those church members or those honest people you spoke about going with you on this mission?"

I didn't wait for a reply. I went back into the conference room. One of the members met me at the entrance way. "Wasn't that a splendid address of the Mayor?" he asked. Then I did the unpardonable thing. Perhaps this member will never understand. But I forgot my dignity, and my reply was the guttural tone which has recently been the accepted vulgar way of expressing disapproval, an expression which the people of New York are apt to call "the Bronx cheer."

Henry H. Heimann

Executive Manager
National Association of Credit Men

Uncle Sam's helping

"When a patient is critically ill, the doctor seeks every possible bit of available data . . . examines every symptom. He may prescribe an operation but afterwards he does not stop his careful study."

By WILLARD L. THORP, Director,
Bureau of Foreign and Domestic Commerce

In the spring of 1785, commissioners from Virginia and Maryland met at Alexandria, Virginia, "to adjust and promote commerce and trade" between those two States. At that time, George Washington extended to them the hospitality of his home and the delegates thereupon moved a few miles down the river and continued their deliberations at Mount Vernon.

As a result of the above meeting, a convention of representatives of five States met at Annapolis, where Alexander Hamilton prepared a recommendation, signed also by Madison and Randolph, for a general meeting of the States in a future convention. He urged that the powers of the delegates be extended beyond the sphere of commerce, inasmuch as they had been "induced to think that the power to regulate trade is of such comprehensive extent and will enter so far into the General System of the Federal Government that to give it efficacy, and to obviate questions and doubts concerning its precise nature and limits, may require a correspondent adjustment of other parts of the Federal System."

The result of this resolution was the Constitutional Convention of 1787. Thus, concern about trade and commerce provided the basis upon which the States were brought together and the Constitution was finally adopted. From that time to the present day, the Federal Government has concerned itself to a marked degree with the regulation and fostering of trade and commerce.

For more than a century, jurisdiction over these matters rested in the Treasury Department. In 1903, after many years of agitation, the Department of Commerce and Labor was created. In 1912 the Bureau of Foreign and Domestic Commerce was established as a particular agency to concern itself with commerce and trade. This can hardly be described as a new organization, but was rather the consolidation of three previously existing Bureaus. One of these, the Bureau of Statistics, had taken over from the Treasury Department and the State Department in 1903 the preparation and publication of all official statistics of foreign commerce, as well as the collection and publication of consular and other foreign trade information.

The Bureau of Manufactures, already in the Commerce and Labor Department, had been created to develop markets both at home and abroad, but had confined its activities almost entirely to the promotion of export trade. The Bureau of Trade Relations, in the Department of State, had likewise developed a service for obtaining and distributing foreign trade information. The consolidation, suggested by an official group in 1908, was finally accomplished as the result of a recommendation by The President's Commission on Economy and Efficiency in May, 1912.

While the title of the new Bureau indicated that domestic commerce fell within its scope, Congress put an end to the compilation of statistics of domestic commerce, previously done by the Bureau of Statistics, by the simple expedient of making no appropriation for this purpose. The result was that the Bureau became, to all intents and purposes, an organization interested almost exclusively in foreign trade reporting and promotion.

The appropriations for the fiscal year 1914 were $244,860, and steadily increased thereafter. Branch or district offices were opened in important commercial centers in the United States, and cooperative offices in connection with Chambers of Commerce were likewise established. The appropriations for the Bureau exceeded 1-million dollars for the first time in 1922, and reached a peak in 1932, of $5,334,122.

At this peak point there were 204 representatives in the foreign service (not including local employees) in 59 offices in leading foreign commercial centers; there were 34 district offices with 261 employees. The headquarters in Washington employed 917 persons engaged chiefly in analyzing and interpreting the material reported from abroad, and insuring its rapid dissemination to the business world.

In 1923 the Domestic Commerce Division was organized for the purpose of developing research in the general field of the distribution of commodities within the country. While this work never absorbed any considerable proportion of the total budget, it grew steadily until in 1932 some $518,220 was spent by this division in studying problems such as wastes of distribution, trade association activities, market analysis, and the like.

The record of rapid growth of the Bureau of Foreign and Domestic Commerce made it peculiarly susceptible to the demands for economy which resulted from an unbalanced Federal budget. The peak allotment of $5,334,122 for the fiscal year 1931-32 was cut to $3,988,000 for the year 1932-33, and to $2,013,000 for 1933-34. Inasmuch as nearly all the funds of the Bureau are devoted to payroll, the inevitable consequence of these budget reductions has been the separation of approximately one-half of the total staff. By reorganization and careful selection of personnel, this reduction has been accomplished without the drastic impairment of services which might be deduced from the above figures.

The problems with which the Bureau of Foreign and Domestic Commerce is concerned are of more vital significance than ever. The export trade of the

hand to business

United States received an impetus during the war and the immediately post-war years which carried it to heights beyond all previous record. Imports likewise increased, but the balance continued "favorable." The discrepancy, disregarding the various minor invisible items, was made up by the import of gold, and later by a net flow of American capital abroad. The depression, with its declining price level and reduced purchasing power in foreign countries, inevitably led to decreasing foreign trade.

At the same time the struggle of various countries to maintain financial stability led to increasing control of the flow of commodities by methods such as higher tariffs, import quotas, exchange restrictions, and the like. In the face of these conditions, it is somewhat encouraging to note, parenthetically, that the records for the last several months have shown some revival in foreign trade activity. Profits in foreign trade have become increasingly a matter of wise or lucky dealings in the exchange market, of anticipation of tariff changes, and of many other factors which could only be offset by the most complete knowledge available of current developments in foreign markets.

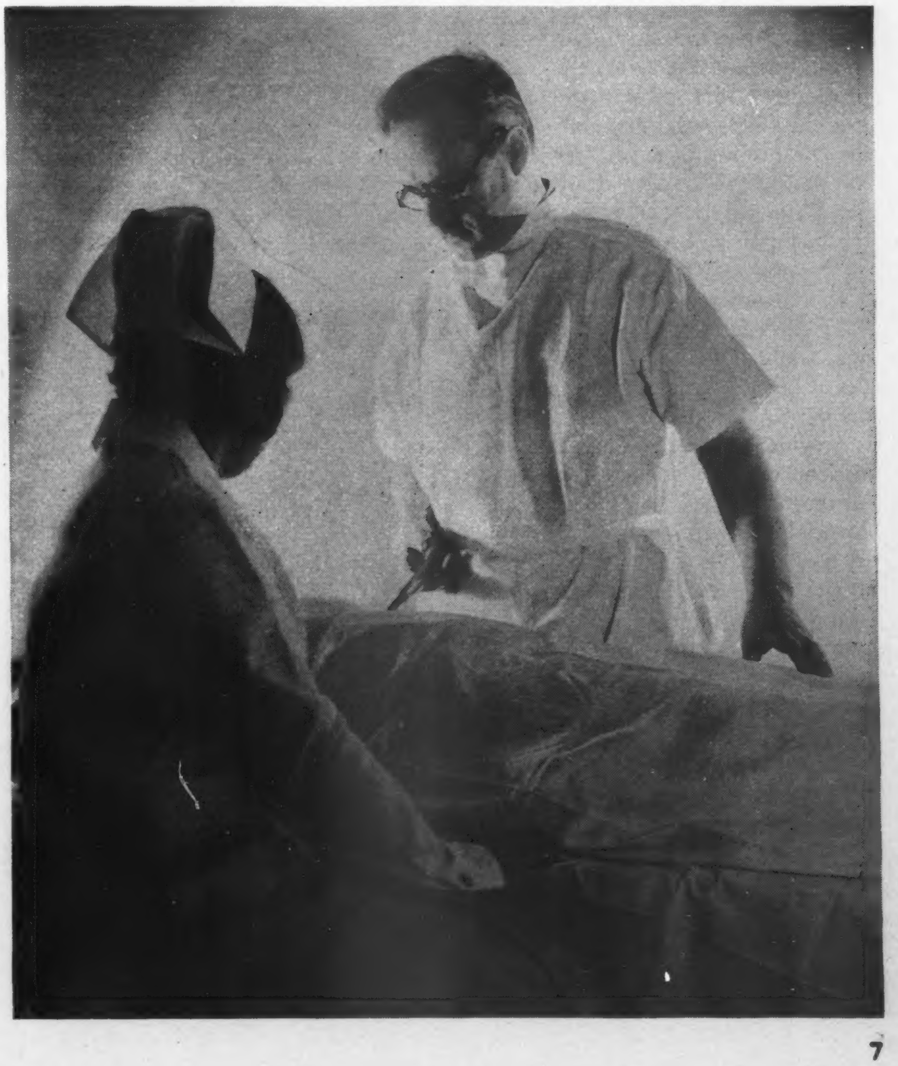
At the same time that the informational services of the Bureau of Foreign and Domestic Commerce have assumed this increased significance in the foreign trade field, its work in the domestic sphere has suddenly become extremely important. The recovery program of the Administration necessarily rests upon knowledge of each particular industry. The wise consideration of codes has taxed to the utmost the resources of information in the Government. Furthermore, it is most essential that accurate observations be made of the development of our economic activity in these critical months. The recognition of the trade association as the significant unit of industry has called for much material which the Bureau alone could provide. Furthermore, its district offices, representing the only geographically distributed contact points between the Government and industry, have played a most important role in the development of the program of the National Recovery Administration.

It has long been an established principle in the Government that particular sectors of the economic system require special study and representation among the permanent Government Departments. Thus, the Department of Agriculture concerns itself with the problems of the farmers, the Department of Labor with those of the workers, and the Department of the Interior with problems relating to our national resources. The Department of Commerce is likewise concerned with certain special phases of our economic activity.

Among the many bureaus in the Department of Commerce are certain ones which relate particularly to safety of life; particularly in connection with navigation, the Bureau of Lighthouses, and the Bureau of Navigation and Steamboat Inspection. As air navigation developed, it likewise found a place in the Aeronautics Branch of the Department. Certain property rights are guarded by the Patent Office. While the Bureau of Standards, as its name implies, furnishes standards for general use, it is of particular aid to the Government in directing its purchasing, and, in more recent years, in providing for many industries standards of commercial products.

The Bureau of Foreign and Domestic Commerce is the particular agency in the Department of Commerce which has as its specific function the assistance of the business community. The Bureau has no regulatory powers. It is a service agency built necessarily upon cooperation with the business community. One book, published in 1924, describes in full the history, activities and organization of the Bureau. Its 180 pages would need considerable expansion to cover adequately the changes and developments of the last decade. It is a complicated organization with many diverse functions and activities.

The underlying principle upon which the Bureau operates (*Cont. on page* 31)



Gauging "Capacity to Pay"

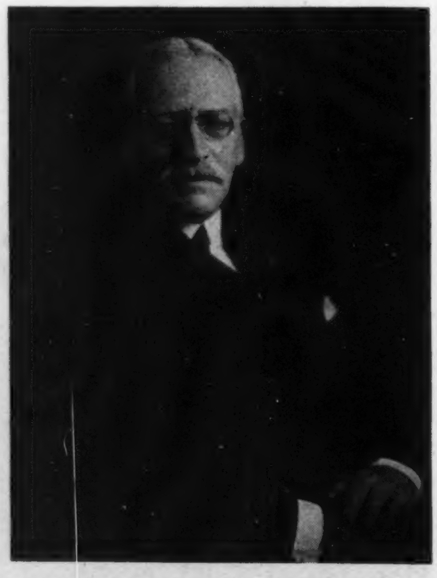
Two dollars in current assets to one dollar in liabilities has been the accepted formula for judging the worth of a customer from an analysis of his balance sheet. But does such a ratio show his capacity to pay his obligations when due? What other ratios do give a true picture of this "capacity to pay?"

by EUGENE S. BENJAMIN, former high official of Irving Trust Co. of New York in an interview with a staff writer of Credit and Financial Management

In these days of the New Deal in business we hear quite a lot about a revision of some of our traditional ideas about credits. No matter how we may revise some of our general plans, we must, however, hold to the basic principle that "credit is the power to obtain goods or service by giving a promise to pay money or goods on demand or at a specified date in the future." It is the job of the credit executive to determine in advance of the consummation of a trade deal, the value of the customer's "promise to pay." The executive has several means for reaching his conclusions as to the reliability of his prospective customer. One of the items checked in such investigations is the financial statement or balance sheet of the prospective customer.

In the ordinary course of his work, the credit executive observes many other phases in determining the business qualities of his prospective customer. One of the most successful of such observations is provided by credit interchange information, which gives a picture of the customer's business character. It is with financial statements, however, and their analysis that we are concerned in this article. Most credit executives have been schooled to observe whether or not the current ratio is two to one, *i.e.*, are the current assets twice the current liabilities? Many executives looked further in their analysis of statements, but few of them have worked out a schedule of other ratios to be checked as an aid in reaching a conclusion as to the credit capacity of a proposed customer.

During ten years as a high official with the Irving Trust Company, New York City, Mr. Eugene S. Benjamin did evolve such a system of ratios which he used successfully in handling all the larger credits passing through his department during these years. Through a former N.A.C.M. president, Mr. William Fraser, the editors of Credit and Financial Management learned of Mr. Benjamin's important work as an authority on credit analysis. They learned also that Mr. Benjamin has set down his ideas and experiences in a book which he has named "Practical Credit Analysis," recently published in a limited edition. It was first planned merely to review Mr. Benjamin's book, but because of the importance of his experience and the direct bearing of his ideas upon the daily work of the readers of Credit and Financial Management, the editors decided to expand the presentation of Mr. Benjamin's book by way of an interview as well as quotations from his new book.



EUGENE S. BENJAMIN

for ten years a credit executive at Irving Trust Co. who has set down some of the results of his long experiences in his new book, "Practical Credit Analysis."

While Mr. Benjamin bases his credit analysis mostly on the application of certain ratios shown in the balance sheet, he makes it plain that he does not consider the financial statement the "alpha and omega" of credit determination, but rather an aid in confirming credit judgment. He says in the foreword of his new book:

"The system of analysis presented will, it is believed, prove of benefit to the experienced credit man who is well informed on the general aspects of business and is a good judge of character. It makes the analysis come as close to an exact science as possible."

"The first problem I faced when I took up my work with the Irving Trust Company was to determine the 'capacity to pay' of those seeking credit," was Mr. Benjamin's reply to our question as to how he happened to develop his system, which is based upon a set of ratios in the balance sheet which are not observed in the average credit analysis.

Mr. Benjamin's search for "capacity to pay" was not a new idea; most every credit executive seeks an answer to the same question when determining credit relations. It is therefore interesting to note how Mr. Benjamin worked out his formulas during his ten years' experience with the Irving Trust Co.

"The most important basis for credit analysis is the balance sheet, which when fully analyzed and fairly and properly interpreted also tells the story of business efficiency." Mr. Benjamin told us as he discussed his work. "While in accord with the principles and fundamentals formulated by various authors on credit analysis, these methods are not fully or well adopted to the uses and

needs of practical credit men because there are several very important ratios which are omitted and which are of prime importance in the study of a balance sheet for the purpose of extending credit."

The ratios which Mr. Benjamin found important were:

Current Ratio
Receivables to Sales
Merchandise to Sales
Merchandise to Receivables
Merchandise to Liquid Capital
Liabilities to Sales
Liabilities to Liquid Capital
Turnover of Liquid Capital
Turnover of Merchandise
Debt Reflected in Merchandise
Net Profit on Gross Capital
Plant to Gross Capital
Cash to Bank Loans

"These ratios can be used for any and all types of industry in which a credit analysis is necessary in order to determine the worth of a balance sheet for credit purposes. My system concentrates on current business assets and liabilities as constituting the basis for credit on the theory that for all credit purposes the principal fact to be determined is the ability of the debtor to meet his obligations as they mature out of the current assets of the business. This method disregards, except in unusual cases, any consideration of investments in securities, as such investments as a rule have seldom been available when needed to pay trade and bank obligations.

"The Current Ratio has always had a preponderating influence in determining the credit availability of balance sheets. As a matter of practical practice it should be the last ratio to be considered by the analyst and certainly should be secondary to the ratio of Liabilities to Liquid or Working Capital."

Mr. Benjamin pointed out further that his plan provides for the use of:

1. Funded or Deferred Debt as Working Capital.

2. Trade Standards wherever feasible for the purpose of obtaining the general average of receivables, merchandise, liabilities in their relation to sales in each trade or industry.

3. Liability ratios of percentage of liabilities to sales; percentage of liabilities to liquid capital; because if either or both of these percentages is too great in comparison as shown by the Trade Standard or as shown by general trade experience, these unfavorable ratios react against an otherwise favorable Current Ratio. Liability Ratios are of equal importance to Asset Ratios.

Mr. Benjamin advocates the use of Ratios of Turnover of Liquid Capital and Turnover of Merchandise (in its relation to the turnover of liquid capital) because these turnovers serve an exceedingly useful purpose in determining the conservative handling of business operations, in Mr. Benjamin's opinion.

"The Current Ratio has been in use for many years as a guide for granting credit," continued Mr. Benjamin. "A basis of $2 in of Current Assets to $1 of Liabilities has been accepted for protection and is in general use. However the weakness of full reliance on this practice lies in the fact that outside of the items of cash, the other items of presumed current assets such as receivables or merchandise are set down as more or less estimates of their liquidating values. On the other hand the liabilities are often understated and experience teaches that in liquidation, a large increase in debt is usually experienced. We have therefore only an estimated condition as to the value of certain of the current assets, and it thus becomes necessary to determine this value.

"The best available method of doing this is to use ratios which are based upon operations, otherwise we are only accepting the declared value of the assets and are protecting the credit on the supposed margin between liabilities which are apt to be understated, and assets which are often set down on an optimistic basis.

"If we accept a statement of the value of receivables and merchandise, we cannot be certain that the Current Ratio as stated is correct until we are able to test the value of these receivables and merchandise to the business. This valuation can be reached through the use of operating ratios, that is those which have to do with the operations of the business. The theory is that no business should have any larger amount of receivables, merchandise or liabilities than its actual sales and sales terms justify, having due regard to the date of the statement—that is whether the statement is rendered at the close or at the peak of an active season.

"If we find upon using these operating ratios that both receivables and merchandise are in fair proportion to sales, we are justified in accepting these assets as current, but if receivables and merchandise are out of due proportion to sales, we must depreciate them to find the true current ratio."

Mr. Benjamin explained that he places no importance in his credit analysis to non-current assets, such as plant and machinery and gave it as his opinion that all intangible assets such as goodwill, patents—have no status whatever in a credit analysis.

The following explanation of Mr. Benjamin's ratio standards is quoted from his book:

RECEIVABLES TO SALES—This is the percentage which all Trade Receivables including Bills Receivable discounted by banks or others bear to the Net Sales, and is compiled to ascertain the percentage of average outstandings. Too large a percentage might mean the inclusion of non-business receivables or excessive terms or partly frozen accounts. Too small a percentage might possibly mean the cashing of sales elsewhere.

MERCHANDISE TO SALES—This is the percentage which the inventory bears to the Net Sales, being for the purpose of ascertaining the turnover of merchandise in relation to sales. An unduly large percentage might indicate that inventory had not been properly depreciated. An unduly small percentage might show that all merchandise delivered to date of statement had not been included in the assets and liabilities.

LIABILITIES TO SALES—This is the percentage which the total quick liabilities bear to the Net Sales. A large percentage would indicate either insufficient liquid capital for volume of sales, or that either the receivables or the merchandise or both are in undue proportion to volume of sales.

LIABILITIES TO LIQUID OR WORKING CAPITAL—This is the percentage of all liabilities to the Working or Liquid Capital. An unduly large percentage would show that the business is relying too heavily on its creditors and that loans are being used for capital deficiencies instead of for seasonal credit needs.

TURNOVER OF LIQUID CAPITAL—(as represented in the (*Continued on page* 38)

Here are main spots in the Benjamin ratio plan:

1. Percentage of outstandings to sales. (Are accounts carefully collected?)

2. Turnover of merchandise in relation to sales. (Has inventory been properly depreciated?)

3. Percentage of quick liabilities to sales. (Is liquid capital large enough for business handled?)

4. Percentage of quick liabilities to liquid capital. (Are loans used for capital deficiencies?)

5. Turnover of liquid capital as represented in volume of sales.

6. Turnover of merchandise as compared with turnover of liquid capital.

Why canal boat

by C. B. KUHLMANN, Professor of Economics, Hamline University, St. Paul, Minn.

Many years ago, a Chinese legend tells us, there reigned a good emperor who was genuinely anxious for the welfare of his people. He used to go out in the early morning to the city gate. There he watched the peasants coming to market with their farm produce and groups of coolies bringing in merchandise for merchants of other towns. All carried great burdens on their backs because there was no other mode of carriage. As the good emperor watched them staggering under their loads his heart bled because they were so tired and worn. So he determined to dig a canal for them. By means of this canal a single boat could carry the loads of many coolies.

Now while the canal was in process of building there was great prosperity. Many men found employment on the project, much money was put into circulation, everybody was spending and everybody was happy. But presently the canal was completed. Now a single canal boat carried as much produce as formerly was carried by hundreds of coolies. Many of these were thrown out of employment and there was want, privation, and much wailing in the city. Hearing this the good emperor decided he had made a mistake. He determined to fill up the canal with stones and earth and, for good measure, he filled up and destroyed all the other canals in the empire. "Now," he said to himself, "everybody will have employment and everybody will be happy."

But unfortunately it did not work out quite that way. For a time everybody had employment, it is true. But the costs of all products used by the workers were enormously increased because of the great increase in cost of transportation. Though the coolies worked long hours they received but very low wages and could get but a bare living therefrom. So there was hunger, destitution, and rebellion throughout the city.

Unfortunately the legend ends there. We do not know whether the emperor ever found the solution to his problem. Probably not, for *we* seem to be struggling with it also. More than that, we seem to have discovered a lot of ways to end the depression and restore prosperity that are just as fallacious as those discovered by the good emperor. Let me run over some of these very briefly.

1. *"Destroy the machines — they caused the depression"* says one group. The machine breakers are not new. Ever since the beginning of the Industrial Revolution men have hated and feared the new machine that took away their jobs. So now many say, "Destroy the machines; then everybody will have a job and everybody will be happy. Let us do our road building with picks and shovels instead of these enormous graders. Let us use horses instead of tractors. In every way possible let us substitute human labor for mechanical labor, thus creating many more jobs."

Of course that is fallacious reasoning. Temporarily we might create additional jobs. But in the long run the great decrease in the productivity of labor which would result from the change would lower wages to a starvation level or raise the cost of the improvements to prohibitive heights. Moreover the idea is fallacious because it assumes that what men want is jobs. Men do not want jobs, they want a living. Certain types of work may be so pleasant and interesting that men would engage in them even though there were no incomes attached. But most work—particularly hard, grinding, physical toil—is not pleasant, not a good thing in itself. Work is desirable because it produces goods. As Professor Ely says, man is not simply "a producer of wealth, the one by whom the necessaries, the conveniences, and luxuries of life are created." "The infinitely greater truth is that man is the one *for* whom they are all produced." Rather than destroy the machines should we not look forward to the time when machines will do almost all our work—provided we can educate the worker to a right use of the leisure time which he will then obtain.

2. *"Cut down production—overproduction caused the depression,"* says another group. And so we plough under every third row of cotton. We pay the wheat farmers a bounty to keep part of their acres untilled. Next, I suppose, we are going to allow manufacturers to similarly restrict output by agreements among themselves. This too is an un-

prosperity today?

"The philosophy and the economics of the canal boat era are as outmoded now as that system of transportation. Prosperity cannot be brought by the methods and policies of a century ago. A new philosophy and a new attitude are as essential as a new deal. May the credit men of the nation lead the way."

sound procedure, as a permanent policy at least. Doubtless as an emergency measure it may be justified. And conceivably we might have actual overproduction in a few such products as wheat and cotton. But nobody has yet shown actual overproduction for the great majority of products. If it be true that there are shoe factories in the United States with capacity sufficient to produce nine hundred million pairs of shoes while the normal demand is for less than three hundred million, that does not prove either actual or potential overproduction. Most of us would be glad to buy several more pairs a year if we could afford it. Instead of cutting down output why not produce all we can so that every American citizen can have all he wants?

The same general objection holds against the program of cutting down the hours of labor. Doubtless in an emergency such as we are facing it is desirable to reduce hours in order to spread employment. Doubtless, also, there are some trades in which working conditions make even a forty hour week undesirably long. Unless the employers generally adopt undesirable speeding-up tactics, reduced hours will mean reduced output and a lower national real income. Would it not be far better to retain the longer working day so that we can produce enough to satisfy every reasonable want?

3. *"The depression was due to extravagant expenditure—let us go back to simple living,"* say some. This point is not made so often as it was three years ago, but it is still heard. And it is just as fallacious reasoning as the others. Suppose we all looked at our old automobiles, our last year's suit of clothes, and our badly worn davenport, and said "They look pretty bad but they will have to do another year because we must save money this year." If we all did that, what would become of the automobile industry, the men's clothing industry, the furniture industry? Some economist may tell us to put savings in a bank which in turn will lend them to a representative business firm which will use them to purchase goods and services thus putting the money into circulation.

"Just so the money gets into circulation, it doesn't matter whether it is spent for consumer's goods or producer's goods," they say. Perhaps so. But there do not appear to be many business firms rushing to make large investments in plant and machinery just now. Even if there were, what would we do with the old plants which would be forced into idleness by the construction of the new?

4. *"Force our money to circulate more freely and rapidly; make people spend,"* says another group. There is, for example, the proposal that we should issue "colored money." Each month we are to put out a new batch of a color different from that of previous issues. And each month that an issue remains in circulation the government is to increase the discount at which it may circulate. Thus people will be forced to spend the money rather than to see its value melt away in their hands. One can only wonder how the retailer could set a price on his goods without first seeing what kind of money the customer was offering. Back in colonial days when they were many issues of paper money of varying value in circulation, the storekeeper was accustomed to say to prospective customers "Let's see the color of your money." The same thing would happen under this proposed plan. Nothing would more quickly paralyze retail trade than such a scheme.

5. *"Drive out the Jews—they caused the depression,"* says another group. Just as in Germany where they accuse the Jews of losing the war for them—and with just as much cause.

6. *"Repeal the Eighteenth Amendment and bring back prosperity,"* says still another group. Perhaps we should repeal the amendment—we seem to be doing it, anyway. But repeal of prohibition will not restore prosperity any more than the ratification of the amendment brought the prosperity of the Coolidge era. Nor should we bring back liquor for the sake of the tax revenue to be obtained from the legalized traffic. This merely provides another excuse for shifting taxation from the backs of the well-to-do to those of the

masses who are the least able to bear it.

7. *"Build a Chinese Wall around the United States and shut out all foreign imports,"* says another group. "Well, not all, perhaps, but all goods we cannot produce ourselves. Let us then cut down production of all commodities to just enough to satisfy our own needs at prices which will bring prosperity to the producer."

It can be done. The United States can perhaps be more nearly self-sufficing than any other nation. There are only a very few products which we do not produce to any extent at home; tin, silk, coffee, tea, tropical fruits, just about make up the list.

It would solve the problem of the wheat farmer and the cotton grower. If we can compel the necessary acreage reduction for these crops and raise the tariff to prohibitive heights, we can raise the price to any desired height. But there are serious difficulties in this plan. In the first place how will you decide what products can not be produced in the United States? If you will make the tariff high enough and give me a large enough subsidy I will undertake to grow bananas in Minnesota. It can be done—in hot houses, of course. The result will be a poor product at a price so high that the masses of the people will not be able to buy. From which we conclude that this policy must result in a lowered standard of living for our people because we must produce so many products in the making of which we are relatively inefficient.

A review of popular cures for the depression thus leaves me somewhat skeptical. Yet the depression is coming to an end. If we are not yet out of it we can at least catch our breaths, look back and consider what next to do.

Looking back we are most of us pretty well convinced by now that a fundamental cause of our difficulties has been an outworn economic philosophy: the philosophy of unrestrained individualism. Not all have yet come to see that. Some of our leading men, both in business and politics, spend much time criticizing current proposals of "book-learned political economists" which are leading, as they see it, to financial ruin. From their point of view these economists are impractical theorists. What we need is practical proposals from practical men—men without theories but only hard practical experience to go by. But that, too, is fallacious thinking. Every man who thinks on any subject must have some theories to base his thought on. These men, though they do not realize it, have an economic theory of their own. It is the theory of laissez-faire—of unrestrained individual freedom.

This theory was first developed in the era of the canal-boat, by another college professor—Adam Smith. In those days when manufacturing by power machinery was in its infancy he published a great book entitled "An Inquiry into the Nature and Causes of the Wealth of Nations." Adam Smith saw manufactures and commerce—both internal and external—strangled by codes of senseless and tyrannical restrictions which had accumulated over hundreds of years and were quite out of harmony with the economic conditions of the time. So he began a fight against this restrictive policy. Free competition should be the rule and guide of all industry. Let each man seek his own self-interest in business. If he does that he will, as though guided by an invisible hand, also do what is best for society as a whole. Free competition will force every producer to give the consumer the best possible product at the lowest possible price.

"Unrestrained individualism in business can no longer be permitted—it is too dangerous and too wasteful. Yet we are not willing to give up the free private initiative under which we have made such tremendous economic progress. Private initiative is to be preserved, but restrained by a system of control imposed by trade associations."

This theory, popularized by Adam Smith, became in the next generation the foundation of the economic thinking of all business men and statesmen. The old restrictions were abolished. Internal free trade became the rule, and wonderful progress was the result. But the new system carried within it the seeds of disaster.

"The machine developed vast power but it lacked brakes." Free competition may easily become cut-throat competition. The consumer was often too ignorant or too lazy to insist that the producer give him the best possible product at the lowest possible price. The worker often was too ignorant or too weak economically to compel the producer to give him the best wages and working conditions the market could afford. Free competition proved to be an unsatisfactory regulation as to what and how much should be produced. In many fields monopoly rather than competition came to be the normal thing. So gradually we have gone back to a policy of government regulation.

This new policy of regulation seems to have passed through three stages. In the first stage, typified by the Sherman Anti-Trust Law and the Inter-State Commerce Law, the government attempted only to prevent monopoly and to force competition. It still believed that free competition was the best regulator if only business men would continue to compete. After a time we began to see that in many fields of industry competition was extremely wasteful and inefficient. So we made an exception of the public utilities. These were to be allowed to establish monopolies but under strict state supervision of rates and service. This was the second stage.

The third stage as it seems to me, is represented by the National Recovery Act. It is veritably "a New Deal." One might call it a noble experiment if that were not likely to be interpreted as damning it with faint praise. Unrestrained individualism in business can no longer be permitted—it is too dangerous and too wasteful. Yet we are not willing to give up the free private initiative under which we have made such tremendous economic progress. So we adopt what we can only hope will prove to be a golden mean between unrestrained competition on the one hand and complete state socialism on the other. Private initiative is to be preserved but restrained by a system of control imposed by trade associations. Each industry and each group of business men is to govern itself subject to the coordinating supervision of the national government.

An experiment, of course. But what else can we do with conditions as they are! Will it work? Nobody knows. The best possible plan may fail because the incompetent or skeptical or disloyal are given the job of putting it into operation. So far as one can see now, that is the biggest danger to the N.R.A. program. That program can be made to work if only there are enough business leaders in this country who will put everything they have in brains, courage and energy behind (*Cont. on p.* 42)

Is your brain insured?

Editor's Note: In an article appearing in the December '32 issue of CREDIT AND FINANCIAL MANAGEMENT, Mr. Lane ran a chart showing that the brains of an average firm yields 80% of the profits of the organization. With this in mind, he writes:

Business life insurance should be called Brain Insurance for the idea behind it is to either replace or buy out the interest of the brains of the business when death occurs. It is often said that Business Insurance is, in reality, Family Insurance in view of the fact that it leaves the heirs of the deceased, the entire value of the business interest. Looking at it from another angle, a man is in business to provide the necessities of life for his family—this he does with his brainpower. When he purchases Business (or Brain) Life Insurance, he guarantees that the business will continue to provide these necessities for his family after he is unable to do it himself. In other words, Business Life Insurance is no different than the every-day run of life insurance you purchase, and if you need this protection for your family, you most certainly need it for your business, to be passed on to your family.

However, just because it is so closely allied to personal protection is the very reason why it should be kept entirely apart from the personal insurance, in order that there may be no mixup when death occurs, and in order that it will do that which it is intended for.

As recently as eleven years ago when I entered into this business of selling life insurance, my manager said to me, "Everyone you meet is a prospect for insurance." I soon found out that this was not quite true, and that he would have come nearer to the truth had he said, "Everyone you meet *IN BUSINESS* is a prospect for *BUSINESS* Life Insurance." My reason for saying this is that all fields of business have the same problems, namely:

1. To keep the business intact so that it may be passed on to an heir.
2. To sell out the deceased's interest and keep the business intact for the survivor.
3. To buy out the majority stockholder's interest and keep the business intact for the minority interests.

You will undoubtedly see one important factor in the above three items . . . the all-important idea is TO KEEP THE BUSINESS INTACT! After all, this

by FRANK L. LANE

Representative, The Connecticut Mutual Life Insurance Company.

applies to all three types of business, whether it be sole proprietorship, partnership, or corporation—closed or open. Let us take these three types of organization and see if we can work them out to prove the need for life insurance for business purposes. Cost does not enter into this discussion for whether you buy participating or non-participating insurance, ordinary life or endowment protection, your return, per dollar invested, will be approximately the same. Ah, you say, cost does enter into this for we cannot afford to buy the protection, even on a plan of term insurance. I agree with you that you cannot afford term insurance, for it is the most expensive form of protection, in the long

What is your brain worth in dollars and cents?

run, in spite of its attractiveness in the form of low premium—BUT IF YOU HAVE THE NEED, YOU CANNOT AFFORD TO BE WITHOUT THE PROTECTION. I think, if you read the following examples of what business insurance is and does, you will be inclined to agree.

CASE A:

Brown is a manufacturer of ladies sweaters. He contracts for the manufacturing of the line which he designs himself, and he sells to the trade; having been a salesman for another firm, he now has his own and large following. Mrs. Brown has helped out in the designing, and has a very slight idea of the manufacturing process in addition to knowing a very few of the buyers, her duties having been household and mother work. Brown needs business life insurance for two reasons—the first to build his credit at the bank and with trade, in addition to acting as contingent collateral should he want to borrow at the bank. His second, and most important need for protection is to keep his business in such a condition that Mrs. Brown can step in, or have someone come in for her and keep the business intact either to be carried on or to be sold when a buyer can be found to purchase at a good and justified price. In this instance, if the man dies without business insurance, his fixtures, no matter how beautiful and costly they may have been, will bring in the neighborhood of $250. and his stock will, in all probability, be liquidated at a tremendous loss due to forced sale. This goes for the storekeeper, the local merchant and practically all types of sole proprietorship, and I feel is a very important point for you analysts of credit risks.

CASE B:

Brown and Brown are brothers and they have been in business together for twelve years. Although they are both married and their wives are friendly, they travel in different circles. If either one dies without the aid of business insurance, the other will undoubtedly have to take his sister-in-law into partnership, NOT necessarily actively engaged in the business. She may be the partner doing nothing but drawing one half of the profits! With business insurance, the survivor could buy out his partner's interest and have ALL of the profits for himself. If it is undesirable for these men to go into partnership with a sister-in-law, is it any more desirable for YOU, Mr. Reader, to go into the same type agreement with your partner's wife?

CASE C:

The same is true of a corporation whether it be big or small. The heirs of the majority stockholders may ruin the business through their voting powers, causing mismanagement and preventing expansion or progressive moves, through "grudge fights" or stupidity. With business insurance, the minority stockholders can arrange to buy out the descendant's interest and run the business for themselves.

I do not want to reiterate the material covered in (*Continued on page* 39)

What constitutes

"The fallacious idea that an industry code can be formulated, which makes it illegal for a business to sell its product at less than its over-all cost, should be definitely dismissed."

by ARTHUR ANDERSEN,
Certified Public Accountant,
Chicago, Ill.

Hundreds of years ago the best scientists of the world were baffled by a problem which seemed to resist their most profound reasoning. Here is the problem as they stated it: A tub of water is placed on a scale and balanced to a nicety; then a live fish weighing one pound is placed in the water and oddly enough, the total shows no increase in weight. The question is, why and how could the weight of the fish thus disappear? Apparently the scientists accepted this as a true statement and pondered heavily on why it should be so, and it was a long time before some very literal fellow thought to check up on the original premise, and found, of course, that the weight of the fish did not disappear.

To us, in this day, it seems incredible that a fallacy of that sort could have been so widely spread, could have been so blindly accepted, and could have persisted for any length of time. We pride ourselves on being literal and scientific.

Nevertheless it is still a trait of human nature to accept some statement or idea as being true and necessary merely because it has been stated. I have the feeling that something of this sort accounts for the popularity of the phrase —"not to sell below cost" as it appears in the majority of the industrial codes formulated under the National Industrial Recovery Act. In most of these codes, the term "cost" is indicated or assumed to be the total or over-all cost to make, sell and deliver the individual products to a customer. It almost seems that industry has the idea that selling prices can be standardized and regulated according to the over-all costs of individual products, in individual businesses.

Actually this is not feasible under a capitalistic system, where some elements of competition and of reward for individual initiative and ingenuity must be retained; nor is it possible to accurately determine the over-all cost of a product. In writing into its codes many of the provisions relative to not selling below cost, I believe industry is for the most part making use of a currently popular phrase, with small conception of the principles or the problems involved.

The term "cost" unless carefully defined is ambiguous to an extreme degree. Economists in general use the terms cost and cost of production in a different sense from the accountant. To an accountant cost generally means the cost to manufacture, and does not include the additional expenses incident to distribution of the product, general administration of the business or items relative to the financing of operations. As used in most codes, therefore, costs —these over-all costs—are something entirely different, in fact something almost new when related to individual items of production; for in the past there have been relatively few instances where the allocation of the general expenses of a business to the individual items made and sold could be made to reflect the true situation. The distinction between over-all cost and the better known unit production cost should be clearly recognized.

The determination of unit over-all costs represents in general a field of cost accounting as yet undeveloped, and one in which accuracy of results would be an unreasonable expectation. In fact such cost must necessarily be mere approximations, subject to question from many angles.

For example, every business man knows that some products require only a minimum of selling effort, either because of low price, or because of long established public acceptance. Other products are constantly pushed by intensive advertising. Some perhaps are highly competitive and some are unique because of design or patent-protected construction. What sound bases then can possibly be set for the allocation of selling and advertising expense to all products, when the only common factor is their dollar cost or dollar sales value? Or what can be done in allocating an intensive advertising campaign over sales for the next several years? Should "institutional advertising" be spread equally over all sales, thus loading a standard low-price line as heavily as a "specialty" high profit margin line? Similarly there will be problems in the allocation of administrative and financial expense to products. Should there be an allocation to standard lines of the engineering and development work on new products? The answer perhaps is "no," but what if this work is all eventually scrapped and the new items are never put in production?

It is evident that if the prohibition against "selling below cost" is to be used in industry codes, it must first be carefully defined as to whether it means "cost to manufacture" in the accounting sense, or "over-all cost" in the economic sense. If it means the latter, then, in my opinion, industry is writing into its codes a mandate which is impractical of application and is contrary to all of our present concepts of business.

The misconception concerning the meaning of the phrase "not to sell below cost" appears to be based on two things—first, a lack of knowledge as to what constitutes cost and cost finding, and second, the feeling that therein lies a possible utopia which will permit of a price regulation which will perhaps enable all businesses to operate at a profit. There is a failure to grasp the fact that the origination of the phrase was purely an attempt to guard against vicious price cutting practices, and to promote among all businesses a better operating control through the use of cost analysis. If it is used at all in a code, it should be clearly understood as meaning production cost—that is, cost which includes only the elements of material, labor and proper allocations of manu-

below-cost selling?

facturing overhead. An attempt to make it include all of the costs of doing business would have the effect of making it illegal for a business to operate at a loss. One has only to look back over the past few years to realize that a prohibition against selling any product at less than the approximately calculated over-all cost would be an absurdity. It is impossible to positively wed selling prices to total cost. Every business man knows that there are times when the life of the company depends upon going ahead in spite of a temporary loss. If prices should be set according to total cost, even if such costs could be determined, they might at times be so high as to prevent sales. They might be far out of line with competition in the industry and out of line with competition from substitute products.

While it is true that we are changing some of our conceptions of business practice, and especially of competitive practices, I do not think it safe to assume that we have achieved perpetual prosperity, and thus will never again need to undergo a period of selling at a loss. Even under normal conditions most businesses make some sales at a loss, as when heavy selling and advertising expense is necessary in the introduction of a new product; or when some work is taken on a "burden absorbing basis" in order to improve the status of operations as a whole; or when some products are handled at a loss in order to complete a "customers' line" of products; or when certain "loss leaders" are offered. This last condition is already the subject of some violent argument under the new codes.

Perhaps some of these conditions, under certain circumstances, are those which are considered "unfair trade practices" and are supposed to be eliminated by the code provisions. But I do not believe they can all be broadly ruled out. The real questions, however, concern the calculation of cost which may be used as a standard in testing selling prices and the colossal job of "policing" under such a code provision. For example, are the "costs" which are supposed to regulate selling prices those which may be calculated from the operations of the preceding year, or from the preceding six months, or must they be currently calculated costs which may be constantly changing? Another consideration is whether the selling prices of every business should be checked against its costs, or whether the comparison should be made only in the event of accusation.

"In writing into its code provisions relative to not selling below cost, industry is making use of a popular phrase, with small conception of the principles involved."

To anyone who has seen the time and effort involved in investigation of an unfair trade practice case under the Federal Trade Commission, involving the matter of costs, any serious thought of a broad application to all industry of a rule that no sales shall be made below cost seems almost an incredibility.

The fallacious idea that an industry code can be formulated which makes it illegal for a business to sell any product at less than its over-all cost should be definitely dismissed. Instead, industry will do well to adhere to the idea that code provisions may be included which are designed to prevent vicious price cutting and to promote the establishment of uniform industry accounting and uniform methods of calculating production cost. If this is done, then the N. R. A. codes will be the means of accomplishing a great forward stride in industry practice and control.

The point to guard against is the assumption that this is an easy matter and that only a short time will be required for its attainment. The facts are that relatively little has been accomplished in the development of uniform industry accounting; that every business is in some respects different from every other; that the systems used must fit the business rather than that business should be forced to fit a system, and that patience, time and technical skill and experience of a high degree are necessary in working out the problem for a given industry. It is difficult enough to develop and install a dependable cost system for one business alone, and the requirements in time and technique are vastly multiplied by attempting to apply uniformity of procedure to scores or hundreds of businesses in the same industry.

In view of the vagueness which seems to prevail concerning the interpretation of costs and the purposes served by uniform industry accounting and cost finding systems; and especially in view of the fact that many business men seem to feel that the formulation and installation of uniform methods for an industry is an easy and quickly accomplished procedure, it seems advisable here to go into some detail in this matter. What are costs, how may they be determined, what do they include, and what are some of the difficulties encountered in the installation of a cost finding system?

Manufacturing costs may basically be split into two main classifications; first, those *units of cost* which are determined in a statistical manner, or as sample costs by specific observation, or by means of subsidiary records not controlled in any way by the books of account. These are often in the nature of estimates, may be built up in different ways, depend on broad allocations of expense and may sometimes be fairly accurate. They are usually determined at intervals rather than currently, and involve average rather than specific conditions. They are useful in many ways, are usually far less expensive to secure than true costs, and depend upon the particular conditions and upon the personal knowledge in a given plant. They are rarely checkable and could seldom be generally applied to different plants with any uniformity of result. The second classification is costs determined as the result of a currently effective system of cost finding, controlled by the books of account and including all items of manufacturing expenditure, distributed to products on some satisfactory and uniform basis. This latter classification is the only one which will be considered here. (*Cont. on next page*)

The components of cost are as follows: direct labor plus direct material equals prime cost; prime cost plus manufacturing overhead equals cost of production; cost of production plus selling and delivery expense (including advertising and promotion), plus administrative expense, plus financial expense, equals operating cost; operating cost plus operating profit or minus operating loss, equals selling price. (This of course ignores non-operating adjustments.) In sound accounting practice "cost" is taken to mean the "cost of production" as herein defined, and no other interpretation is advisable in a code which specifies the development of a system for uniform cost finding in an industry, or prohibits selling below cost.

Even the problem of determining this production cost is far from simple. In the first place, there are usually several products or at least several sizes, types and finishes of the same general product. There must be careful control over the distribution of all charges to operations and products, and the type of production should determine the type of cost system used. The first apparently simple stage of charging direct material to the product may involve the following points:

Physical control over inventory, to insure that material is accounted for; a system for handling incoming invoices, checking against purchase orders, checking against received material; insuring movement of material to stock rooms, or accounting for it by move orders if carried directly to the shop floor; entering cost of material and units of material in stock ledgers; insuring charges to orders or products through use of requisitions; costing materials against orders or products at some average, last, or written down figure; controlling stock ledgers to the books of account; determining the method of charging incoming freight; accounting for rejected and spoiled material, for re-used material, for excess material, for substitution of material; insuring the classification of material usage as between production and repair or maintenance; accounting for obsolescence; controlling the substitution of materials, parts, or sub-assemblies by various orders; controlling against errors, pilferage, or shrinkage; etc.

The charging of direct labor to orders may involve almost as many points of control, and may be even more difficult in application, due to the human element. Where men write their own time tickets, the charges are inevitably approximations. Where jobs are preplanned and time is clock-recorded, the result will be more accurate, but requires careful supervision.

But the elements of material and labor cost may always be more accurately determined and distributed than may that of manufacturing overhead. In the first place, there are basic questions of what constitutes the items of overhead. Should depreciation be charged on a straight-line basis, or on the basis of machine hours, or on some other index of production activity? Moreover what are proper depreciation rates—or more basically, should plant and equipment values be written down to a replacement level, or if plant and equipment have already been over-depreciated,

Next Month

Mr. Andersen continues his dissection of below-cost selling next with the inceptions of the idea, present NRA provisions, impracticability of some interpretations, and practical relationships of price and cost.

should the values be adjusted upward? There is the matter of controlled records on repair, maintenance and replacement, and the co-ordination of these policies with the policies on depreciation.

Assuming that all such questions are satisfactorily answered, then comes the question of allocation to products. Should overhead be distributed on the basis of labor dollars or labor hours; or is it more equitable to distribute it through machine or process centers? May it be applied on some over-all basis or should it be carefully departmentalized and then redistributed? Should there be some differentiation between fixed overhead and variable overhead items, with different methods of allocation?

The procedures which may be followed in regard to many of these details will be influenced by the type of cost system which is determined to be applicable to a given situation. Thus there are "Production Order Cost Systems," "Operation Cost Systems," "Process Cost Systems," "Standard Costs Systems," and numerous others more specialized or less well defined. There are peculiar "allocated" cost systems usable in certain industries, and there are combinations of two or more of the above systems necessary to meet certain circumstances. All of these have been studied, worked upon and applied at some place or some time, and each requires a specialized knowledge of its particular application if its installation and use is to be successful. The type which should be used is dependent upon the particular product and method of processing of the given business, and perhaps upon the necessity for making the best use of existent records and customs in the business. Among the plants in a given industry it might not be unusual to find several different types of cost systems already in use.

Few businesses or industries seem to realize that a system of uniform accounting is an essential prerequisite to a system of uniform cost finding. Unless the charts of accounts are in all essentials identical, with the make-up of each account well defined, the costs of each plant will be dissimilar. Even then, the matter of distribution to accounts requires judgment and it is not infrequent to find, in the same office, that two people will charge the same item to two different accounts. Moreover, the detailed application of the same basic cost system to each plant must be accompanied by modifications and approximations. If one plant in an industry makes only one product, its cost problem may be relatively simple. But if it makes several products, there will occur the problems of allocation of expense, which will be hard enough in the manufacturing end, but which would of course be almost fantastic in the selling, advertising, financial and executive phases. Uniform cost finding by industries is still further complicated by the fact that one given business may find itself with products or processes which lead to its inclusion under ten or fifteen different codes. If each code prescribes a different method of costing, what will that company do?

This may sound too technical and too involved to have a direct bearing on the subject, but serves to give some idea of what I mean when I say that industry is being very optimistic in so generally prescribing the adoption of uniform systems of cost finding.

Insurance guards credits

by D. C. CAMPBELL, Manager, Credit Department, Fidelity-Phenix Fire Insurance Co., Chicago, Ill., and Chairman, Insurance Group at Milwaukee Convention, N.A.C.M., June, 1933.

INSURANCE STATEMENT

OF

____

TO

____

(Form adopted and recommended by National Association of Credit Men)

This statement is submitted to you to supplement our Financial and Property Statement in order that you may accurately judge my (our) insurance coverage for the purpose of extending credit accommodation.

1. If a partnership, do you carry Business Life Insurance?______ How much?______
   Does this insurance also provide accident protection? ______
2. Is the treasurer bonded, and for how much?______
3. Do you carry Fidelity Bonds or Dishonesty Insurance?______ State whether Individual, Scheduled or Blanket______
4. If automobiles are used in your business, are they covered by Liability Insurance?______
5. If a store, is General Liability Insurance carried?______
6. Are the elevators insured for Public Liability?______
7. What are the values of the property, and how much Fire Insurance is carried?
   Property values $______ Insurance carried $______
   What co-insurance is on the Fire Insurance policies? ______
   List companies with which you carry insurance______
8. Is Business Interruption Insurance carried?______
9. If there is a lease, is the leasehold interest insured?______
   Is the rental income insured for loss by fire?______
10. Is building sprinklered?______ Name system ______
    If building is sprinklered, and stock susceptible to water damage, is Sprinkler Leakage Insurance carried?______
11. If oil heater or gas on premises, is Explosion Insurance carried? ______
12. Are goods in transit insured?______
13. Are you protected by Check Alteration and Forgery Insurance?______
    Is Burglary and Hold-Up Insurance carried?______
14. When were your various insurance policies last examined or gone over by an insurance expert?______
15. What other insurance do you carry?______

The foregoing statement has been carefully read by the undersigned (both the printed and written matter), and is in all respects complete, accurate and truthful. It discloses to you the true state of my (our) insurance coverages on the ____ day of 19____ Since that time there has been no material unfavorable change in my (our) insurance coverages; and if any such change takes place I (we) will give you notice. Until such notice is given, you are to regard this as a continuing statement.

Address______ Town______ State______
Dated at______ this______ day of______
Business engaged in______
(Name of Firm or Corporation)______
Signed by______

Form approved and distributed by the N.A.C.M.

"What doth it profit a man to sell the whole world and fail to collect?" is the slogan of the Chicago Association of Credit Men. Against those three words "fail to collect" are generally arrayed: the written and mailed financial statement, mercantile agency reports, attorney and bank reports, credit interchange reports, and personal inquiries.

One important factor in the checking of large and substantial accounts is frequently overlooked. When an account is opened it generally starts in a moderate amount, compared to which the financial condition is fully sufficient. As the account grows, the finances of the debtor firm are closely watched. The assets are there but what guarantee have we that they will remain in existence? This brings into question the protection against disaster maintained by the debtor concern.

This momentous question can be answered by the use of the Insurance Statement which has been adopted and recommended by the National Association of Credit Men.

If it were possible to print here statistics showing the number of business houses that were eventually crippled and put out of business or into bankruptcy, the composition settlements made, the total loss to creditors in the period of one year from the disasters that can be insured against—the figures would be astounding!

The credit man can well afford to analyze the insurance protection of his large accounts. Suitable insurance protection, determined by the nature of the debtor's business, is a necessary protection to the creditor. It not only guarantees that the creditor will receive his receivables, but guarantees that the debtor can stay in business. Some wholesale merchandisers who are the main supply sources for heavy accounts even go so far as to have the insurance policies of the debtors in their possession. Re-discounted paper with the Federal Reserve Banks requires the insurance policy to accompany the bills of lading, warehouse receipts, etc. Lack of adequate coverage is today one of the largest open doors to loss.

The first item on the insurance statement is business life insurance. This coverage is particularly necessary to a partnership. If one active partner dies, many factors disturbing to the business can arise in the settlement of his estate. Under such circumstances a substantial cash benefit payable to the business will be a salvation.

In this connection the accident feature is worthy of comment. If an active partner is disabled over a period of time by an accident, the employment of someone to replace him during the time of disablement does not affect the operating expense of the business if the life insurance coverage carries and pays accident benefits.

The second and third items of the insurance statement are obvious. From occurrences in the last two years, the necessity of fidelity protection is manifest.

The fourth question on the statement is a very important one. Judgments for automobile injuries are growing larger as time goes on. It is fairly common to see juries return assessments in damages between $30,000 and $85,000 for personal injuries. In this connection it is well to see that employees who use their cars on occasion for business purposes are properly covered by liability insurance, as they have often been held to be agents of their employer, and as such the employer is either sued as principal, or joined in the suit against the employee.

Provisions five and six on the insurance statement relating to general liability and elevator liability have increased in importance, not particularly due to any increase in the number of accidents occurring on merchants' premises but the depression seems to have convinced many persons who have suffered a decreased income that an injury claim is a good substitute therefor.

Question number seven covers the fire insurance protection not only from the standpoint of (*Cont. on page* 42)

Latin-American credit conditions

by W. S. SWINGLE,
Director, Foreign Dept.,
N. A. C. M.

At the close of the third quarter of this year the survey of Credit and Collection Conditions in twenty-one Latin American markets indicates that there has been comparatively little change from the previous quarter in regard to credit conditions, but there has been a slowing up in collections in a number of points.

This 20th quarterly survey, which completes the fifth successive year of analyzing at the end of each quarter the credit and collection conditions in Latin America, is compiled from the opinions of members of the Foreign Credit Interchange Bureau of the National Association of Credit Men who are selling in these markets, and the opinions of these exporters on credit conditions as reported and experienced by them, as well as their experiences on collections are the basis for the survey.

The progress in credit conditions indicated during the first and second quarters of this year has been maintained in most of the markets under review, but the forward movement as indicated particularly from the survey at the close of the second quarter has not been proportionately maintained. Credit conditions in most of the markets show a slight gain or at least hold the gains made since the first of the year. Although credit conditions in one or two countries indicate a considerable improvement, the changes are generally less marked than usual in comparison with the previous survey. This would indicate not only a stabilization of conditions based on higher commodity prices, but also a tendency to mark time awaiting further developments in trade and economic conditions in these markets.

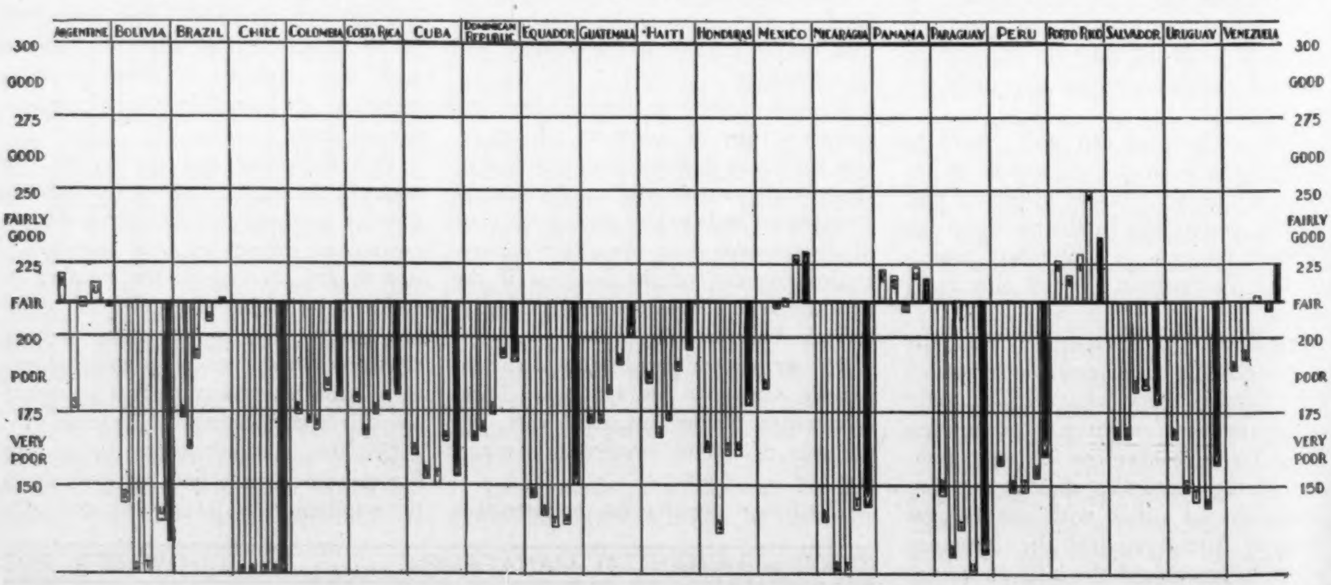
From the first of the year to the end of the second quarter a generally favorable trend was indicated. Had this been continued during the third quarter conditions in a number of markets would have reached a fairly favorable position. The graphical chart below will show through the credit index figures the relative positions of each of the countries under survey in the last five quarterly surveys running from September, 1932, to date. Of the twenty-one markets covered, thirteen show a gain in the index figure, and in eight a decline is indicated. The credit index figures for Puerto Rico, Mexico and Venezuela, as the graphical chart indicates, are classified as Fairly Good. Of these countries Mexico has continued the improvement indicated all during the year. The index for Puerto Rico has declined sufficiently to reverse practically all of the gain made in the previous survey. At the present time none of the countries have a sufficiently high credit index figure to place them in the general classification of Good.

The exchange situation still continues to present the greatest difficulty to normal trade relations. This is an evidence of unsettled conditions and unbalanced trade rather than a basic cause of such a situation. The internal conditions in many countries have improved but the import and export trade balances both of visible and invisible factors, present a situation which continues to be reflected in exchange control, lack of foreign currency balances, and exchange transfer. Some improvement has been brought about in regard to exchange in some of these countries, notably Brazil, where arrangements made for the freezing of larger balances permits the bringing out of relatively smaller sums under an arrangement worked out with the Brazilian government, and the Committee representing American foreign trade interests.

Most recently the situation in the Argentine has become increasingly difficult. Not only is this reflected in a decline in the credit index, but particularly in the collection index. The result of the British-Argentine trade arrangement is beginning to become more apparent, and to cause greater difficulty for the settlement of dollar shipments into the Argentine. With a large percentage of available exchange set aside to be applied under the British agreement, and with a policy of allocating dollars in proportion to the shipments from Argentina to the United States, an increasing difficulty in obtaining dollar exchange can be anticipated. The recent action of the Argentina Minister of Finance in definitely blocking old balances created prior to May 1st of this year, throws an additional burden on those who are working toward a solution of this problem.

This whole situation emphasizes the

Credit conditions in twenty-one Latin-American countries scaled on the basis of the credit condition index figures which express mathematically the combined opinions of individual reports on each country.



change slightly, collections slower

necessity of prompt and long range planning in our trade relations with Latin America. Whether exchange negotiations will come ahead of trade agreements, or as a result of these agreements, is a moot question, but these work hand in hand and together stress the importance of prompt action on the part of both business and government, toward definitely working out a solution of the many problems which hinder the best mutual trade relations.

It also brings attention to the results which might obtain if trade relations were to be worked out with all Latin American countries on a direct basis where exchange transfers and payments would be definitely limited and controlled by the balances created from trade between any two countries, leaving aside the proper basis of free movement between all currencies. In many countries in Latin America, exchange operations based strictly on created dollar balances from direct trade would materially help exchange transfers into dollars. If we have to face this as an accepted method of international business without consideration of the ultimate developments of such a step, then our interests must be protected.

The unsettled conditions in Cuba are indicated by the decline in the index of credit conditions for that country. Some sizeable changes in the index figures for some of the countries in the lower classifications are shown, but these indicate a shifting of positions rather than a definite trend forward. In such countries as Haiti, Dominican Republic, Costa Rica, Colombia, Salvador and Honduras little change has been indicated in credit conditions. Credit conditions in these countries are still generally classified as "Poor," with some improvement shown in Honduras. In such countries as Peru, Ecuador, Nicaragua, Bolivia, Paraguay and Chile, credit conditions continue to be reported as "Very Poor."

These comments on credit conditions, as in all previous surveys, apply only to commercial transactions based on the opinions of exporters doing business in these markets, and do not reflect governmental or municipal credit or the ability of any of these countries to ultimately take care of their obligations, or the credit background of any governmental set-up.

This survey shows a change from conditions regarding collections existing in all previous surveys. The collection index has previously shown a better relative position than credit conditions might indicate, but in this survey, although previous improvement in credit conditions has in most cases been maintained, nevertheless collections have not held up proportionately. Exchange restrictions, of course, affect this situation, but the decline of the dollar in the exchange market has also had its effect in that many debtors are uncertain and awaiting a possible further decline and the effects of a threatened inflationary movement, many buyers are hoping for cheaper dollars in settlement of their obligations when these can be obtained in the exchange market. A definite removal of the threat of depreciated paper currency or definite devalorization of the dollar would improve the desire on the part of the buyer to liquidate his obligations rather than take advantage of further exchange fluctuations, and would also tend to stabilize the price situation for American merchandise in foreign markets.

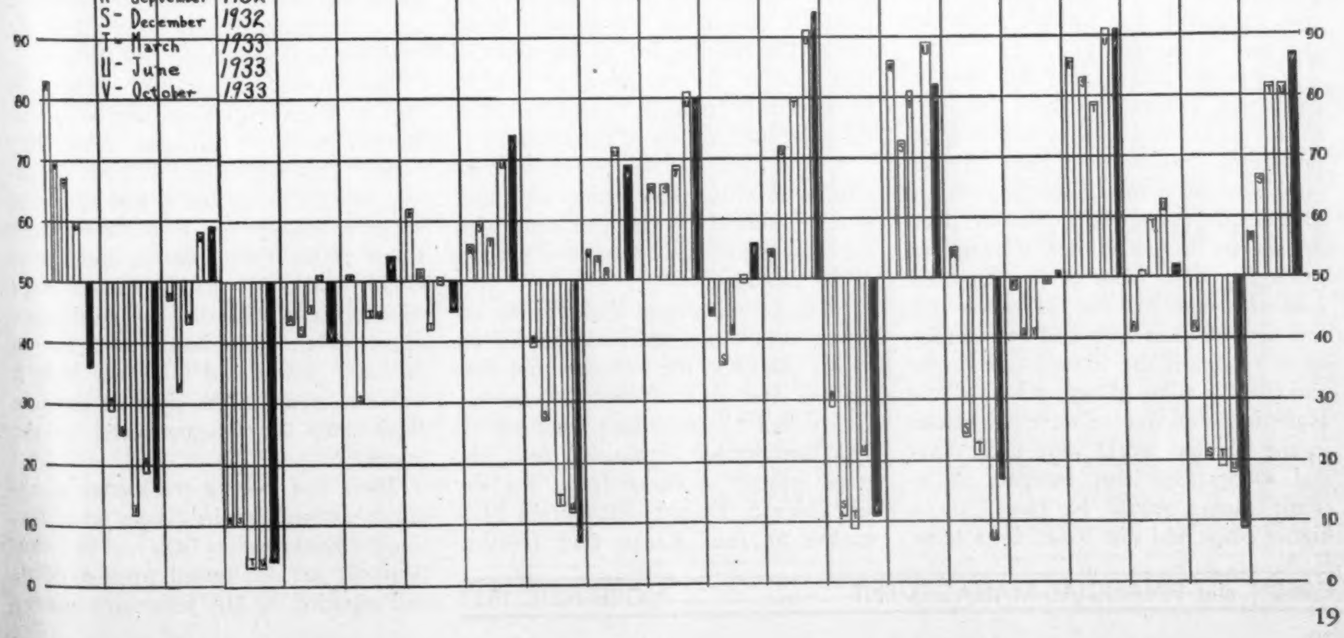
In only nine of the countries was a gain shown in the collection index, and in eleven a decline. This compares with the situation existing in the survey at the end of the second quarter when fourteen countries showed improvement in the collection index, and only four a decline. The number of countries in which collections are classified as Prompt according to the index figure has decreased. Mexico has reached the head of the list, after a steady improvement since the close of last year.

With reference to the collection index, a comparison between the index in the third quarter of this year and the figures for the surveys of the past five quarterly surveys are given in the graphical chart, showing the comparative picture from the quarter closing with September, 1932.

Collections from such countries as

(*Continued on page 32*)

Collection conditions in twenty-one Latin-American countries at five different periods. The scale numbers are based on the percentage of reports of prompt collections for each country during each survey.



N. A. C. M. pioneers

by J. H. TREGOE,
Past Executive Manager,
N. A. C. M., 1912-'27

Chapter Three: Foundation Years

The National Association of Credit Men was launched at a time when the national mind was deeply stirred by the most acrimonious financial debate that ever had happened in our political history. Still feeling the depressing reactions of the 1893 panic, the free coinage of silver was advanced by the magnetic orator, who had stampeded the Democratic Convention of 1896, as a cure-all for the economic ills of the country and of the farmers particularly. The mentality of the nation was challenged by the fiery statements of Mr. Bryan and the carefully developed arguments in support of sound money.

This contest was the "Armageddon" of the free silver theory, and when it was thrown aside by a popular majority, then the nation set itself to build along orthodox lines. In this turbulent maelstrom the new credit craft could have been easily sunk but for the clear imagination and the tenacious persistence of its builders. Like the explorer, with a clear-cut objective but faced with unseen difficulties and problems, these pioneers moved abreast and sought for the intelligent control and uses of credit; the technique that eventually appeared proved to be the dynamic force that expanded the nation's commerce and built its prosperity.

It was but natural that this new organization should have been subjected to the very closest scrutiny and to many pessimistic criticisms. The question arose whether or not it was another engine created further to oppress the debtor class and to protect those who needed protection least. Out of the fog there gradually emerged the realization that this new business body had been undertaken to guard the interests of debtor and creditor alike, to have it known that as the inter-relations of these two classes in the business world were understood and safeguarded that business in its credit phases would be placed on a higher plane and that losses from loose methods and unco-operation would be converted into profits.

The President selected at the organizing convention, Mr. Preston, was not a parliamentarian but possessed a clear imagination and a persistent initiative that helped greatly to diagram the Association's initial activities. There were certain things that had to be done first before credit could be made fluid and allowed to circulate throughout the nation with an understanding and a protection that would greatly broaden the production and movement of commodities. The methods of credit departments would have to change; "half-truth" information intended in many instances to deceive competitors in their appraisal of credits must yield to higher motives and all information reflecting credit experiences be truthful and fair in every particular.

Financial statements must be popularized as a form of information of great usefulness in the management of credit. Unco-operation must yield to co-operation so that credit departments would recognize their common problems and work together for their common good. Laws protective of credit contracts must be sought and especially a National Bankruptcy Law to replace the patchwork legislation of the various States. Mercantile agency service was in much need of improvement. Crimes against credit contracts should be punished. Education on credit and its uses must be encouraged and means supplied by carefully worked out and readable literature. The membership of the Association had to be expanded so that its workmanship could be applied in all of the principal markets of the nation.

Very early in his administration committees covering these points of attack were appointed by the president with the co-operative concurrence and support of the directors.

Energetic missionary work for the organization of local units was carried on by Mr. Boocock, the secretary, and during the first year of the Association's history local organizations were set up with considerable enthusiasm and generous support in Philadelphia, Rochester, Chicago, Detroit, Pittsburgh, Milwaukee, St. Paul, Kansas City, Denver, Nashville, Portland, Cincinnati, Baltimore, Boston and Louisville. The National Association had a roster of approximately 600 when starting its career, and the first year closed with a membership of 1591.

The second Convention was entertained in Kansas City and aroused a great deal of interest and curious comment among the managers of credit departments. It happened in the days prior to the organization of the National Association that the dangers of credit, owing to the paucity and inaccuracies of information, ran very high and for the financial safety of business enterprises the management of credits was usually taken over by some important member of the firm. In those days the co-partnership form of business organization usually prevailed. In consequence of this prevailing custom the delegates at the Association's early Convention carried responsibilities unknown to later generations and were more matured in consequence. The Kansas City Convention was largely a debating club where pressing questions of credit practice and credit reforms were warmly debated. At this Convention Mr. James B. Cannon, vice-president of the Fourth National Bank of New York City, was elected president. Mr. Cannon was graced by a charming personality, he possessed executive skill and has never been surpassed as a presiding officer in the annals of the Association. Mr. Cannon's bank was the first in our history to set up a credit department with all of the facilities that were then available.

The urgent matter that really came first in the Association's diagram of objectives was a National Bankruptcy Law. This legislation reflected opposing political views and it had happened about a century ago that the Supreme Court of the United States, contrary to Chief Justice Marshall's opinion ruled by a majority vote that the Bankruptcy clause of the Constitution was not an exclusive power and if at any time it was not exercised the right of enacting Bankruptcy Laws appertained to the States.

There had been a traditional antagonism among certain classes to a National Bankruptcy Law. The first National Act was passed April 4, 1800, and repealed in Mr. Jefferson's admin-

and traditions

istration. A second National Act was adopted August 19, 1841, and it lasted only two years. A third Act was passed in 1867 and repealed in 1878. On the repeal of this third Act, the States enacted their own insolvency laws and it was one of the most unfair and deterrent pieces of legislation as a rule.

After the financial crisis of 1884 Judge Jay L. Torrey of Missouri started an agitation for a fourth National Bankruptcy Act. No headway was made and the question simmered along until the panic of 1893 when many credit minds recognized that a uniform insolvency statute for the nation was absolutely imperative. Mr. P. R. Earling, of Chicago, drafted a National Bankrupty Act and submitted it to readers of a business magazine and to his associates. Mr. Earling claimed that not more than twenty-five percent. of assigned estates eventually reached creditors. At this period Judge Torrey put fire into his campaign. A bill was drafted in accordance with his ideas and the National Association of Credit Men through its Legislative Committee endorsed the measure.

The internal debate rocked the Association pretty badly, for there were many houses and credit managers who felt that being deprived of the opportunity to obtain preferences by diligence, and to wipe out indebtedness by legal procedure would be inimical to our business interests and not attain the objective that was so eagerly sought by the Association.

In the face of keen opposition the National Association was thoroughly imbued with the necessity of a uniform insolvency law if credit was to be brought within good control and the interests of everyone properly preserved. The Legislative Committee and the Boards of Directors continued to give their support to the Torrey bill and when the third annual Convention convened in Detroit during June of 1898, a resolution was offered by the Legislative Committee for the enthusiastic approval of the bill and calling for the unstinted support of the entire organization.

It happened at this time that the influences of the Association had undoubtedly been felt in Congress; the Association's attitude on the subject had won some uncertain minds and during the Convention it was learned that both Houses of Congress were in a state of approval, and that contending ideas would be reconciled so that a fourth National Bankruptcy Act could be presented to President McKinley. In the face of this information the original resolution was withdrawn and for it was substituted one that merely approved the need of a practical and workable Bankruptcy Act. The Torrey bill in a reconciled form passed Congress on July 1, 1898.

At the Detroit Convention Mr. Cannon was reelected for the second term. At this Convention the grouping of credit managers by trades proved very instructive and popular. Progress had evidently been shown through the first two years of the Association's activities and the membership had reached 2332.

Many readers ask:

"Can I get a complete copy of these reminiscences of the N. A. C. M. by Mr. Tregoe?" To them we answer—and to you others—"Yes."

A special booklet printed in the new and attractive photo-lithography process will be available, after the series is completed, at 50 cents.
If you would like one, send us your name on your firm's letter-head. We'll do the rest.

An office for the Association had been tendered by Mr. Cannon in his bank building and with his compliments. The Association had been launched with powerful ideals but an income too small for extensive activity. A smile of amusement would creep over the faces of our present members were they to know on what a meagre annual income the Association functioned in its first years, an income that would not sustain its present activities for more than a week or two. It was providential that the founders and the newly organized units were imbued with a spirit of workmanship and with ideals that could keep the machinery running at high speed on very little fuel.

Mr. W. A. Prendergast, a credit manager of New York City, and who had conspicuously figured through his splendid force and personality at the three Conventions, was appointed in Detroit Secretary of the organization. Mr. Boocock had retired from the active labors, and having passed away many years ago, he can be recalled by those only who had a part in these foundation years.

An unusual incident happened in Mr. Cannon's second year. Through a banker friend in Buffalo he inspired an invitation from Buffalo to entertain the fourth Convention and when it was accepted this friend proceeded to organize a local Association. The work was well done and when the Convention of 1899 convened a local unit was in play and no meeting of the Association was more hospitably and practically entertained than by this baby organization. At Buffalo Mr. Cannon retired feeling that a two-year term should become an unwritten law of the Association and he was succeeded by one of the most interesting figures that the Association ever presented.

John Field, of Philadelphia, was a massive figure physically, he stood more than six feet, wore a frock coat, had a Scotch burr in his voice and won by the force of his character and his prominence the President's office. Mr. Field had been an opponent to the National Bankruptcy Act and not wishing to have the attitude of the organization on this subject in the least misunderstood, before tendering Mr. Field the nomination, he was asked for a pledge that during his administration that nothing would be done by him, officially or individually, antagonistic to the new Bankruptcy Act.

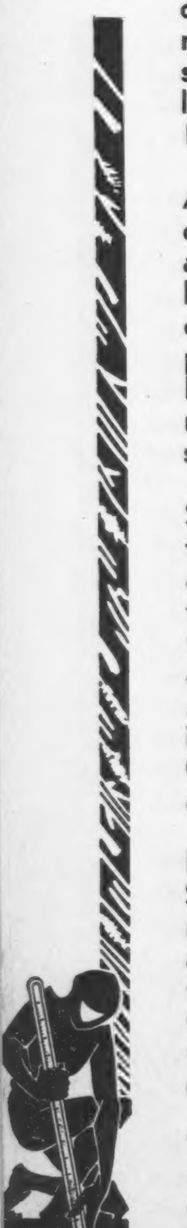
During the current year the Association membership had made a slight advance only. The roster stood at 2,536. An Association at Omaha had been organized in the previous Fall and following the Buffalo Convention an Association was organized at Cleveland. There were now 22 local units in operation.

During the first year of Mr. Field's administration it was recognized that the National Bankruptcy Act was quite imperfect in parts and should be quickly amended.

A populistic sentiment prevailing in Congress at the time of the Bill's enactment had forced certain provisions that tended to imperfect administration and inequalities. A movement was gotten under way to amend the Act, and the matter became a congenial responsibility of Mr. Ray, Chairman of the House Judiciary Committee. (*Cont. on page* 41)

The business

a compilation of business and



BUSINESS INDEXES: The average of business activity as shown by the distribution and sales during the third week in October was registered at 71.5 percent of normal as against a peak for the year of 77 percent of normal. The wholesale price index for the week ending October 10 declined 0.4 to 105.9. The decline in the prices of farm commodities was responsible for most of this change. Food and textile prices also showed a slight decline for that week. Car loadings for the ten leading lines increased by 1,710 units during the week ending October 14.

AUTOMOBILE TRADE: While there has been some recession during the last weeks in October, the sales results in July, August and September were quite satisfactory. The recession in October was anticipated in September, but this usual seasonal decline of the early fall months has only just started to affect the production schedules. Reports from Detroit and other automobile centers indicate the start of plant activities on new models, many of which are expected in time for the January automobile shows.

STEEL PRODUCTION: There was a considerable decline in the total of unfilled orders reported by the U. S. Steel Corporation at the end of the month as compared with the same period for 1932. The bookings also as compared with August of this year registered a 12 percent of capacity decline. The percentage of shipments as to capacity was but three points below August. There was some increase in orders during the last week in September, owing to the announced advance in prices on October 1 of $3 per ton on merchant bars and $2 on plates and shapes.

PETROLEUM TRADE: On October 17 an edict was issued by Secretary of Commerce Ickes that petroleum producers must reduce production. This announcement followed by a few hours an announcement by the American Petroleum Institute of a less than one percent gain in production during the week ending October 17th. This was the first weekly gain in the last eight weeks. However the stocks at domestic refineries as reported on October 14 totaled 50,000 less than the week previous.

TEXTILE TRADE: Cotton prices declined during the first two weeks in October. This news however is not so disturbing when we know that the New York Cotton Exchange service reports the largest world consumption of cotton in August of any month since 1927.. Several reporting agencies indicate the falling off in purchases in various lines of textiles during early October was a natural reaction after a speculative buying spurt during August and September. Labor troubles have been important features in several of the textile trades but these have been mostly settled through NRA agencies.

Comment on Business

A favorable outlook for the far-western section of the country is in sight, Henry H. Heimann, Executive Manager of the National Association of Credit Men, declared upon his return from a two-month visit to that area.

Mr. Heimann, who is also Vice Chairman of the Industrial Advisory Board of the N.R.A. and Secretary to the Business Advisory and Planning Council of the Department of Commerce, stated that 85 percent of the territory covered in his survey reported normal crops, the exceptions being confined largely to the Pacific Northwest.

Sales improvement was noted throughout the territory with a slight hesitancy of the continuation of the favorable experience in recent weeks and wide acceptance of the National Recovery program was evidenced, with approximately 50 percent of the business leaders he contacted in that area, declaring that their espousal of the program was through "patriotic motives." Some doubt was entertained, however, as to the effectiveness of the program, particularly with respect to the emergency features, but the long-range aspects of the program were endorsed.

Our executive found no adverse reports in the matter of unemployment and noted that an overwhelming majority reported employment gains, while the remainder found the job situation to be holding steady but not declining.

In regard to the banking situation, Mr. Heimann observed that bankers' opinions indicated considerable doubt about the bank deposit insurance plan which goes into effect at the turn of the year. The most frequent suggestion of the Western bankers, he said, was that as a corrective medium to help bring about recovery there was the need of immediate action in releasing partially, at least, the deposits frozen in closed banks.

Employment figures

Figures announced in mid-October from Washington by Secretary of Labor Perkins indicate an increase of 620,000 in employment within 17 of the larger groups of industries during the month

thermometer:

financial trends and indications

of September. These industries employ about two-fifths of the 49,000,000 workers in the United States.

"This increase in employment does not represent the total number of persons who were returned to employment in all branches of industry in September," Miss Perkins said.

Pay rolls increased approximately $10,000,000 weekly during September as a result of the upturn in employment, the Secretary pointed out. Weekly pay rolls have increased by nearly $64,000,000 a week in the six months from last March, during which period employment has gained 2,700,000.

Miss Perkins pointed to an increase in September of 16,000 in railroad workers and a gain of 35,000 in persons engaged in public road construction.

Manufacturing industries put more than 200,000 persons back at work and there was a seasonal increase of 70,000 in canning. Retail and wholesale establishments also added to their pay rolls. Building and construction industries reported the reemployment of more than 20,000.

Business and NRA codes

That business is adjusting itself to the NRA codes is the opinion of the Standard Statistics Company of New York in a statement issued late in October. The statement says of this situation:

"The distrust and dislike with which the code method was regarded in the earlier stages have gradually given place, over considerable areas, to an attitude ranging from warm approval to neutral tolerance.

"Regardless of opinion, moreover, it is evident that business is adjusting itself to the new order, having been helped to do so by the recent revival in activity. Should business again start to rise in the late autumn, as now expected, the process of adjustment should be eased still further because the economies of larger scale industrial productions should go far toward offsetting the increases in wage and material costs caused by the codes.

"In taking note of this encouraging fact regarding the operations of the NRA an exception should be made in the case of labor. The wide prevalence of strikes (which now seem, happily, to be receding in certain industries) shows that adaptation has been slow in this field, and some of the proposals of the Recovery Administration, suggesting that determination of labor relationships be lodged in governmental hands, do not sound any too practical."

New rail loading mark

Loadings of revenue freight on the railroads of the United States in the week ended October 14, published by the American Railway Association, promise to make a new high for 1933.

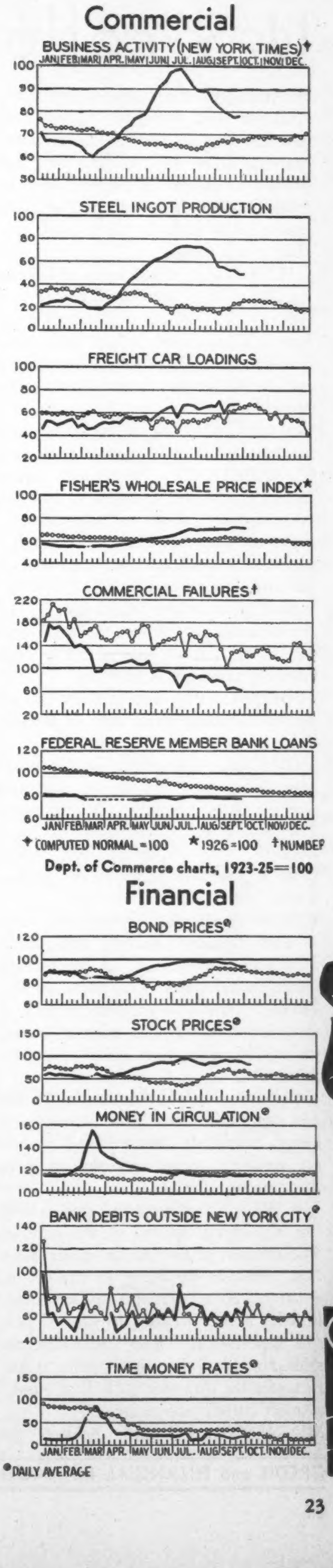
It is estimated that they will total about 667,000 cars as compared with 654,428 cars in the week ended October 7 and 650,578 cars in the corresponding week of last year. The weekly high so far in 1933 was set in the week ended September 2, when 666,652 cars were loaded.

The first seven major railroads to report for the week loaded 109,508 cars as compared with 106,283 in the immediately preceding week and 110,754 cars in the similar week of 1932.

Agricultural income

The gross income of farmers in 1933 is tentatively estimated by the Department of Agriculture at $6,360,000,000; this figure includes income from the production of crops, livestock, and dairy products, which is placed at $6,100,000,000, and estimated benefit payments to farmers of $260,000,000 under the program of the Agricultural Adjustment Administration. This year's indicated farm income is $1,215,000,000 above last year's figure, an increase of 24 percent, but is 8 percent below the 1931 income and 47 percent less than in 1929.

The rise in estimated income from farm production following three years of continuous decline is principally the result of the increase in farm prices.



U. S. collections and sales drop

ALABAMA: Birmingham reports merchandise sold for Fall trade is not moving through the retailer as hoped. Manufacturers, coal mines, etc., have stocked yards and inventories built up.
ARKANSAS: In anticipation of higher prices, many firms in Little Rock overbought last month.
CALIFORNIA: Collections in Oakland are improving, due to a tendency to collect when due on the part of group activity along credit control lines. Sales continue fair. Quite a noticeable change for the better has been noted in San Francisco.
COLORADO: The sugar beet money in Denver should help rural sections.
CONNECTICUT: Waterbury reports factory production is somewhat less than last month. Lay-off of help caused a slight slowing up of sales, though a temporary condition, as improvement has already been noted. D.C.: Washington submits the following: "This city was the last to feel the depression and is the last to recover. The hotel business, however, is booming.
FLORIDA: No improvement is expected for about thirty days in Jacksonville.
INDIANA: Collections in Evansville have dropped off during the past three weeks. Sales generally are improving. The Studebaker Corporation in South Bend is now employing over 8,000, with a splendid program of production.
IOWA: Burlington reports trade-dealer and consumer reacting unfavorably to higher price levels. A marked decrease in sales has been noted in Des Moines. The slow increase in price of farm commodities has affected buying on rapidly increasing price of articles purchased.
KANSAS: The old accounts in Wichita are not paying and new accounts are being restricted. Many small jobbers are reducing terms and putting many accounts on cash.
MICHIGAN: Detroit informs us buying was overstimulated in the summer. The reaction is now in the other direction. People are trying to pay on old accounts. Some recession has been noted in sales and collections in Flint. Jackson reports the larger manufacturers' sales are good, but the smaller manufacturers are slow due to lack of capital to meet current obligations.
MINNESOTA: Duluth believes the poor crops and uncertain market conditions have materially affected both sales and collections. A survey conducted in Minneapolis indicates that retail sales have improved slightly. Four out of fourteen lines of trade report collections good, nine fair and one slow. On collections, one reports good, nine fair and four slow. St. Paul reports current collections fair, but payments on old accounts are still lagging. Sales to dealers continue to show strength, probably in anticipation of price rise—nothing to indicate that the merchandise is being taken by consumers in amounts more than for current needs.
MISSOURI: St. Joseph believes the farmers "quick money" produce, such as butter and eggs, are too low compared to manufactured goods prices.
NEW YORK: One section in Binghamton reports sales slackening off since September 15th. Another reports sales 7% over corresponding month in 1932. A marked improvement in sales and collections in some lines has been noted in Rochester.
NORTH CAROLINA: Crop sales are rather slow, due to low prices. The farmers are holding cotton and tobacco for better prices. Industrial plants gradually increasing production.
OHIO: Dayton reports the following: "There is in the neighborhood of $150,000,000 in deposits "frozen" in the Dayton area. These deposits are in the Building & Loan Associations and one closed bank. Seven of the Building & Loan Associations are being liquidated, four by the State Department, and three by the Boards of Directors. The total liquid deposits in Dayton at this time, are believed in the neighborhood of $30,000,000, as compared to approximately $200,000,000 in 1929."
OREGON: Portland believes there is an undercurrent of improvement, but this has not yet been realized to any extent in a definite, visible way. Oregon and Portland are rejoicing in having received quite a substantial amount in the Public Works appropriation. Work has already begun on the huge dam across the Columbia River at Bonneville.
PENNSYLVANIA: Collections in Johnstown are slow due to the coal and steel strikes. One of their National Banks recently resumed operation on an unrestricted basis. The labor condition in coal and steel industries has affected sales and collections in Pittsburgh.
SOUTH DAKOTA: The drought conditions in Sioux Falls makes the sales and collections possibilities much lower than anticipated.
TEXAS: Because of rain in El Paso, cotton crops will be thirty days late. Ft. Worth reports the following: "Both collections and sales in most all lines have increased since our last report. Some lines report the largest sales volume for any one month since 1930 and collections have been far ahead of anticipations. Bank deposits in Ft. Worth have increased remarkably. One local bank reports bank deposits in excess of $1,000,000.00 for the past thirty days." San Antonio informs us there has been a falling off in sales due to the heavy buying earlier in anticipation of rising markets and stocks now too heavy to require much replenishment.
UTAH: Sales in Salt Lake City have fallen off due to the advance in prices.
WASHINGTON: The wholesale transactions in Seattle have declined some. Spokane reports that during the last three months, a marked improvement has been noted in both sales and collections. Collections have increased about 30%, and a recent questionnaire among firms in this section indicates an average sales increase of almost 20%. This is due to the marked improvement in the agriculture situation in this territory.
WEST VIRGINIA: The strikes in Clarksburg have affected sales and collections in this area.

Summary

This Month:

Collections:		Sales:	
Good	4	Good	9
Fair	65	Fair	64
Slow	32	Slow	27

Last Month:

Collections:		Sales:	
Good	6	Good	12
Fair	70	Fair	73
Slow	24	Slow	15

Score sheet of collection and sales conditions

State	City	Collections	Sales
Ala.	Birmingham	Fair	Fair
Ark.	Little Rock	Fair	Fair
Ariz.	Phoenix	Fair	Fair
Cal.	Los Angeles	Fair	Fair
	Oakland	Fair	Fair
	San Francisco	Fair	Fair
Colo.	Denver	Fair	Fair
	Pueblo	Slow	Fair
Conn.	Bridgeport	Fair	Fair
	New Haven	Slow	Slow
	Waterbury	Fair	Fair
D. C.	Washington	Slow	Fair
Fla.	Jacksonville	Slow	Slow
	Tampa	Slow	Slow
Ill.	Chicago	Fair	Good
	Quincy	Fair	Slow
Ind.	Evansville	Slow	Good
	Ft. Wayne	Fair	Fair
	Indianapolis	Fair	Fair
	South Bend	Slow	Slow
	Terre Haute	Good	Good
Iowa	Burlington	Slow	Slow
	Cedar Rapids	Fair	Fair
	Davenport	Slow	Slow
	Des Moines	Slow	Slow
	Ottumwa	Slow	Slow
	Sioux City	Fair	Fair
Kans.	Wichita	Slow	Slow
Ky.	Louisville	Fair	Fair
La.	New Orleans	Fair	Fair
	Shreveport	Fair	Fair
Mass.	Springfield	Slow	Fair
	Worcester	Fair	Fair
Mich.	Detroit	Fair	Slow
	Flint	Fair	Fair
	Grand Rapids	Fair	Fair
	Jackson	Fair	Fair
Minn.	Duluth	Fair	Fair
	Minneapolis	Fair	Fair
	St. Paul	Fair	Fair
Mo.	Kansas City	Slow	Slow
	St. Joseph	Fair	Slow
	St. Louis	Fair	Slow
Mont.	Great Falls	Fair	Fair
	Helena	Fair	Good
Neb.	Omaha	Fair	Slow
N. J.	Newark	Fair	Fair
N. Y.	Albany	Fair	Good
	Binghamton	Fair	Fair
	Buffalo	Good	Fair
	Elmira	Fair	Fair
	New York	Fair	Fair
	Rochester	Fair	Fair
	Syracuse	Fair	Fair
	Utica	Fair	Fair
N. C.	Charlotte	Fair	Fair
	Cincinnati	Fair	Fair
Ohio	Columbus	Fair	Fair
	Dayton	Fair	Fair
	Toledo	Slow	Slow
	Youngstown	Fair	Fair
Okla.	Tulsa	Slow	Slow
Ore.	Portland	Fair	Fair
Pa.	Allentown	Slow	Fair
	Altoona	Slow	Slow
	Harrisburg	Fair	Fair
	Johnstown	Slow	Slow
	New Castle	Fair	Fair
	Pittsburgh	Slow	Slow
	Wilkes-Barre	Slow	Fair
R. I.	Providence	Slow	Fair
S. Dak.	Sioux Falls	Fair	Fair
Tenn.	Chattanooga	Fair	Fair
	Knoxville	Fair	Fair
	Memphis	Slow	Fair
Texas	Austin	Fair	Fair
	Dallas	Fair	Slow
	El Paso	Slow	Slow
	Ft. Worth	Good	Good
	Houston	Fair	Fair
	San Antonio	Good	Fair
Utah	Salt Lake City	Slow	Fair
Va.	Bristol	Fair	Fair
	Norfolk	Fair	Good
	Richmond	Fair	Good
	Roanoke	Fair	Fair
Wash.	Bellingham	Slow	Slow
	Seattle	Fair	Fair
	Spokane	Fair	Good
	Tacoma	Fair	Fair
W. Va.	Bluefield	Slow	Slow
	Charleston	Fair	Fair
	Clarksburg	Fair	Fair
	Lynchburg	Fair	Fair
	Parkersburg	Fair	Fair
	Wheeling	Slow	Slow
Wis.	Fond du Lac	Slow	Slow
	Green Bay	Fair	Fair
	Milwaukee	Slow	Fair
	Oshkosh	Slow	Slow
Terr. Hawaii	Honolulu	Slow	Slow

Changes since last month's survey

State	City	Collections	Sales
Arizona	Phoenix		Good to Fair
Colorado	Pueblo	Fair to Slow	
Florida	Tampa		Fair to Slow
Illinois	Quincy		Fair to Slow
Indiana	Evansville	Fair to Slow	
	Ft. Wayne	Good to Fair	
Iowa	Cedar Rapids	Good to Fair	Good to Fair
	Davenport		Fair to Slow
	Des Moines	Fair to Slow	
Kansas	Wichita		Fair to Slow
Massachusetts	Springfield	Good to Slow	Good to Fair
Michigan	Detroit		Fair to Slow
Missouri	St. Joseph		Fair to Slow
	St. Louis		Fair to Slow
Montana	Great Falls		Slow to Fair
	Helena		Fair to Good
Nebraska	Omaha	Slow to Fair	Fair to Slow
New York	Buffalo		Fair to Good
	New York		Good to Fair
Ohio	Cincinnati		Good to Fair
	Columbus		Good to Fair
Pennsylvania	Johnstown		Fair to Slow
Rhode Island	Providence	Fair to Slow	
South Dakota	Sioux Falls		Slow to Fair
Tennessee	Chattanooga	Slow to Fair	
Texas	Dallas		Fair to Slow
	El Paso	Fair to Slow	Fair to Slow
	Ft. Worth	Fair to Good	Fair to Good
Utah	Salt Lake City	Fair to Slow	
Virginia	Norfolk	Good to Fair	Fair to Good
Washington	Spokane	Slow to Fair	Slow to Good
West Virginia	Clarksburg	Slow to Fair	
	Wheeling		Fair to Slow
Wisconsin	Fond du Lac	Fair to Slow	Fair to Slow
	Milwaukee	Fair to Slow	

Credits and the salesman

To meet the new conditions in business, a closer coordination between credits and sales must be made.

by VINCENT W. HOSMER,
Credit Manager, Fred H. French Paper Co., Los Angeles, Cal.

Recently there appeared a very interesting article under the title "Salesmanship is a lost art," and I wonder if it is not time to also classify "Credits and the salesman" under the heading of a lost art.

A great many salesmen realize that a sale is not completed until it is paid for, but the majority consider their responsibility ended when the sale is made. To the majority, a credit department is just a necessary evil with which a business concern is afflicted, and the less they have to do with this department the better they feel.

Salesmen imagine the party who handles this department sits throughout the day with a C. O. D. stamp in one hand, the other holding pencils with thick red lead. To the minority who realize the co-ordination of credits and sales I give my heartfelt thanks; to the majority I hope they will read and consider this article carefully, as a friendly contact between the salesman and credit department promotes more and better sales.

A salesman handling 50 accounts, some called on daily, others semi-weekly, and others weekly, is in a much better position to ask for payment than to have the request come direct from the credit department. The salesman forgets that his 50 accounts multiplied by 12 other salesmen makes a total of 600 which the credit department has to supervise, endeavoring to keep each account within its established limit, get the money, yet withal try to keep the customer thinking of your house when he needs your product.

Let me illustrate with one instance as related to me by a credit man for another concern. He found it necessary to personally follow up a delinquent account, and after several calls finally proved to the customer he was not as bad as had been predicted. This customer finally told him that when he received a call from the credit department his first thought was, "If I do owe an amount not due, what is this fellow here for; if I don't owe him anything, then what? If I do owe an amount past due, when is the attachment to be put on?"

The customer finally admitted that if the salesman had asked for a check, the account would not have been delinquent.

Further investigation proved that the salesman and customer greeted each other using their first names, showing an intimacy which should have allowed the salesman to discuss the matter of payment without hard feelings. As it was, the credit department realized the utter lack of cooperation from this one salesman in making collections.

Having been in the wholesale paper business since 1905, I can speak from experience, and I fully believe the time is coming when a better and more friendly spirit will be exhibited between the departments of credits and sales.

Remember, Mr. Salesman, your credit man is a human being like yourself. Mistakes will happen, but your wholehearted co-operation will lessen these mistakes.

When you bring in an initial order for a new customer, telling the credit department that you think the customer is worthy of credit, do you really think that statement a basis for credit?

If you say another house will sell if we do not, is that a basis for credit?

If your customer is supposed to discount, or pay in 60 days, is it good policy to try and pull a few strings to get an extension, and increase the account? Perhaps it is, but just a notice to the credit man that Mr. Jones is not going to pay as he usually does, cannot be welcomed without further details, and a full knowledge of these details understood by the customer, salesman and the credit department.

Business conditions are improving, new methods are being employed, terms are being shortened instead of lengthened, and if there ever was a time when credits and sales should be hand in hand it is now.

Salesmen need the credit department; the credit department cannot function properly without the salesmen. So let us all pull together for new prosperity.

Make your house one that is the envy of your city, where the customers delight to deal with the credit department as a friendly part of their business.

You, salesmen, are the only ones in an organization that can put this over.

—*"American Paper Merchant."*

Collectibility of old accounts

Writing in the October issue of THE CREDIT LEDGER, the monthly publication of the Portland Association of Credit Men, M. E. Hellman, a lecturer on credits and collections, makes this important comparison on the "collectibility" of accounts of various periods past-due:

"Watchful waiting is a costly pastime. Don't let it alibi for failure to come to a decision regarding the handling of any accounts. Competent authorities investigating industrial accounts have estimated that:

"Accounts 3 months past due are 85% collectible.

"Accounts 4 months past due are 65% collectible.

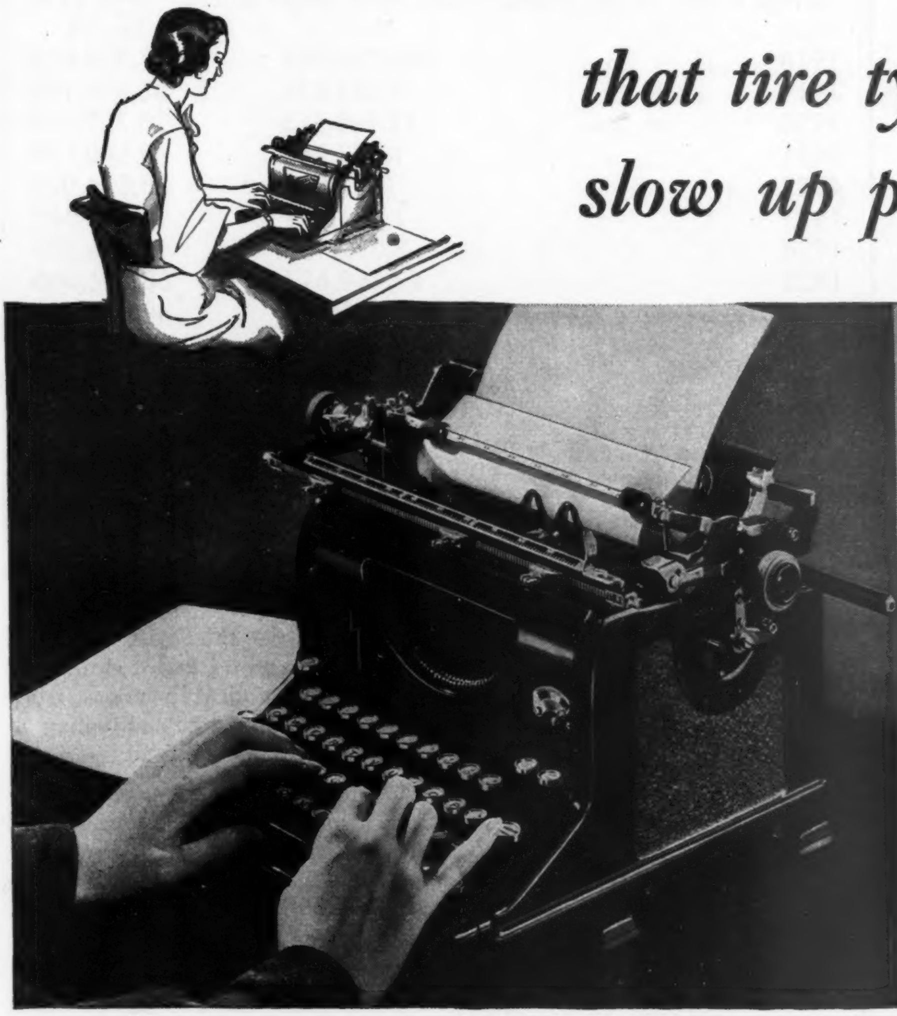
"Accounts 6 months past due are 50% collectible.

"You can readily see, therefore, that patience costs money. Sometimes patience can be condoned, but the point is: *don't let indecision cause you to waste valuable time.*

"The creditor who makes a lot of noise usually is the one who is paid first. The question is, are you making a loud enough noise? Your extensions of time on invoices—are they creating further good will of a customer who is financially sound? Or are you merely postponing the day of reckoning? It doesn't pay to delay turning over an account for action, once you see that that is the sane procedure. When an account comes to the stage where outside assistance is necessary, enlist that assistance, and the quicker the better."

Eliminates needless motions . .

that tire typists and slow up production



THE MOTOR RETURNS THE CARRIAGE

A mere touch of the "return" key, which is conveniently located on the keyboard, causes the motor to return the carriage to the starting position, or to any predetermined intermediate point. Spacing to the next writing line is automatic . . . and accurate.

THE MOTOR SHIFTS TO CAPITALS

A light depression of the "shift" key (normally used to shift the platen manually) causes the motor to shift the platen instantly to the upper position. Thus, "shifting" is instantaneous, light and easy . . . the motor does the work.

The keyboard is standard—there is no new touch to learn

With the Burroughs Electric Carriage Typewriter it is no longer necessary for the typist to stop at the end of each line . . . remove her hand from the keyboard . . . push the carriage back . . . and then relocate her hands to writing position. A light touch of the Carriage Return Key replaces all these wasteful motions.

This most modern of all typewriters is backed by Burroughs' own world-wide service organization which has, for so many years, kept all types of Burroughs electrically controlled machines in continuous and profitable operation.

See this new machine . . . examine its new features and advantages . . . have it demonstrated on your own work, in your own place of business. Or write for an illustrated, descriptive folder, to the Burroughs Adding Machine Company, 6251 Second Boulevard, Detroit, Michigan.

BURROUGHS
Electric Carriage
TYPEWRITER

Rubles and recovery

An analysis of American trade with Soviet Russia

Year	Imports	Exports
1918	$10,760,007	$17,335,518
1919	9,663,038	82,436,185
1920	12,480,586	28,727,718
1921	1,043,260	15,540,136
1922	522,833	28,814,025
1923	1,481,699	7,308,389
1924	8,030,465	41,948,578
1925	13,119,673	68,906,060
1926	14,121,992	49,905,642
1927	12,876,790	64,921,693
1928	14,024,525	74,091,235
1929	22,555,714	84,725,205
1930	24,385,786	114,398,537
1931	13,206,393	103,668,808
1932	9,704,000	12,648,000

Foreign Trade of the United States with Soviet Russia—1918-1932

—Table and text from "Congressional Digest."

Although there have been no official dealings between the two governments, trading between the United States and Russia has continued with few interruptions since the establishment of the Soviet Government.

This trading, however, has been between American individuals and corporations in their private capacity, on the one side, and the Russian Government on the other, since the only foreign trade done by Russia is done by the Government and not by private individuals.

In keeping aloof from this trading, the American Government has gone so far as to warn American bankers and others that the extension of financial credits to Russia must be at their own risk and that they could not look to the Government in the event they had trouble in collecting, and to forbid American bankers to act as agents for the Russian Government.

Several Russian trading agencies have set up offices in the United States to furnish trade information to American exporters and importers and to transact business direct on behalf of Russia. A list of them is given below.

American trade with Russia took a sharp drop in 1931 and 1932. Supporters of recognition of Russia have stressed this fact as an indication of the losses in trade America is sustaining by refusing to recognize Russia. Experts in commerce, however, lay the drop almost entirely to the refusal or inability of American exporters to extend long term credit to Russia. They are of the opinion that many American exports finally reach Russia through European countries—Germany, France, England and Italy. American products, they declare, are purchased in these countries on short term credits and resold to Russia on long term credits, but are, of course, listed as exports to the European countries although Russia is their ultimate destination.

That there is, as yet, no actual direct trading contact between the United States Government and the Soviet Government is indicated by the official statements on the loans for the sale of cotton.

On July 3, 1933, following reports from London that Assistant Secretary of State Moley had discussed the sale of cotton to Russia with Maxim Litvinoff, to be financed by the United States Government, Chairman Jones of the Reconstruction Finance Corporation announced that with the approval of the President and Secretary of the Treasury Woodin, the Directors of the Corporation had agreed to make loans to American exporters to finance the sale of sixty to eighty thousand bales of surplus cotton for shipment to Russia.

The loans to the exporters will be for one year at 5% interest, and will be secured by the notes of Amtorg Trading Corporation, an American corporation owned by Russia, unconditionally guaranteed by the State Bank of U. S. S. R.

Amtorg Trading Corporation will pay 30% of the purchase price in cash.

These loans will be made to any American exporter with resources and of standing satisfactory to the Reconstruction Finance Corporation, from whom Amtorg Trading Corporation may purchase the surplus cotton. The Reconstruction Finance Corporation is dealing with the American exporters and not with the Amtorg, and is holding the exporters responsible for the repayment of the loan.

The total amount of the loan to cover the estimated amount of cotton to be purchased by Amtorg is $4,000,000.

Trade between the Soviet Union and the United States is handled in the main by four New York corporations, representing Soviet industrial and trading organizations. These firms are:

Amtorg Trading Corporation, New York, representatives in the United States of the principal trusts, syndicates, trading agencies and other economic organizations of the U. S. S. R., with the exception of the All-Russian Textile Syndicate and cooperative organizations.

All-Russian Textile Syndicate, New York, representatives of the Soviet All-Union Textile Syndicate, purchase American cotton for shipment to the Soviet Union.

Centrosoyus-America, New York, representatives of the Union of Consumers' Cooperatives of the U. S. S. R.

Selskosojus-America, New York, representatives of agricultural producers' cooperatives of the U. S. S. R.

The Soviet Union Information Bureau, Washington, D. C., was opened several years ago under the direction of Boris Skvirsky, to furnish general trade information to American business men and to the Russian Government.

Mr. Skvirsky first came to America in 1921 on a mission from the Far East Republic, which later became a member of the U. S. S. R. The Russian Foreign Office directed him to remain in America as an unofficial trade representative and Secretary of the Information Bureau.

"This month's collection letter"

By H. P. Philips, Columbia Alkali Corporation, Barberton, Ohio

Dear Sir:

How would you like to have my job?

Each of our salesmen tells me, "Don't pester my customers about their bills—they'll all pay." The Sales Manager says, "We don't call on any man who isn't good—why worry?" And the President always says, "Service—that's our first duty—think only of Service every time you call on a customer; think only of Service every time you write a customer. The customer is always right."

Fine isn't it?

But if our working capital is all tied up in overdue accounts due to my taking the above too seriously how long do you suppose we could continue to operate?

Of course you are going to remit for your overdue account—soon. Of course I needn't worry about it. Of course I want to help render you "Service." But to be brutally frank about it, I must ask you to SEND ME YOUR CHECK TODAY. By so doing you will retain your good standing with our Credit Department and after all, always remember, YOUR CREDIT RATING IS YOUR MOST VALUABLE ASSET.

Gentlemen:

In view of your failure to respond to our numerous letters to you relative to a past due item of $110.00 there is only one thing left for us to do with this small account and that is to charge it off to bad accounts.

Of course since we are members of the National Association of Credit Men it will be necessary that we as members report to the association any uncollectible account.

It is to be regretted that it should be necessary to place a black mark against your credit status for so small an item as this but you have given us no alternative.

"About ninety percent of the letters which I write are actually dictated, each case being based on its own merits. However, I do segregate, and keep copies of, letters which seemingly produce the best results and I do use these letters from time to time for other customers," Mr. Philips tells us.

"It has been my experience that a letter which will bring a settlement from one customer may produce no results whatever with another customer of a different type and I therefore, as stated above, handle each account in an individual manner based upon whatever personal knowledge I may have of the customer.

"When I dictated the enclosed letter I was wishing at the time that the man was sitting right opposite me and said in the letter just exactly what I would have liked to have said to him had he been here.

"Upon receiving this letter he quite evidently discussed the matter with an official of our Sales Department, apparently having asked why he should be pestered with collection letters when we knew that his financial status was o.k. The official in turn spoke to me about the account, advising me that he was personally acquainted with this customer and that I should not bother him as he was perfectly good. However, it is my business to see that the accounts are paid and since this account was long past due, instead of leaving the customer alone I wrote him another letter.

"This letter brought the check."

Supplementary to any collection letter efforts there should be reliance on Credit Interchange reports. With interchange reports before you on each of your accounts, you will attain maximum effectiveness in using the collection letters presented here.

Send us your best and favorite collection letter for our "collection of collection letters" which we are gathering for readers of Credit and Financial Management.

A selected series of individual copies of the collection letters which have appeared in Credit and Financial Management is available upon application. Apply to Collection Letter Department, Credit and Financial Management, One Park Avenue, New York.

Interesting booklet

A new historical booklet just issued by the London Assurance Companies has within it much interesting information.

The first section, "Founding in Seventeen-Twenty," briefs the high points in world history at that time in a few pithy sentences. Here is a typical paragraph:

"Philadelphia, dominated by the Quakers and the most important city in the colonies, was still governed under William Penn's charter of 1701. Newly born was Philadelphia's first newspaper, the American Weekly Mercury, published by Andrew Soule Bradford, son of William Bradford, the colony's first and famous printer. New York, under acting Governor Peter Schuyler, was reaching the zenith of its enthusiasm for slave trading and nearly half the population of the city was black."

The second section, "Founding in Eighteen-Twenty-Eight," tells about the Union Fire in the same way. It includes a translation of the Royal Ordinance of Charles X of France by which the company was founded. The third section is concerned with the year 1872, when the London Assurance entered the United States, and gives briefly the background of American fire insurance at that time.

It was written by Jarvis Woolverton Mason, advertising counsel to the three companies. Although this is not a continuation of the same series, he has written for these companies six booklets on agency practices which have enjoyed wide popularity. "Through the Years" will be sent free to anyone requesting a copy by the New York office at 99 John Street or by Credit and Financial Management, 1 Park Ave., N. Y.

Social equals

Mrs. Riley: Are yez on callin' terms with our neighbor?

Mrs. Murphy: Oi am that. She called me a thafe an' Oi called her another.

—Boston Transcript.

Uncle Sam's helping hand

(*Cont. from page* 7) is that successful business management rests upon knowledge. Decisions resting upon rule-of-thumb and coin tossing must give way to sound information and basic facts. The methods of science should be followed as far as possible in business practice as well as in engineering. Experience from the past and from other areas must be brought to bear upon every problem. This calls for better records and more analysis of them.

Perhaps there is no field in which there is as direct a need for the Government to supply basic information as in foreign trade. The average manufacturer can not keep in touch with the varied developments in foreign lands. There must be some ready source to which he can turn to obtain such information as the rates of tariffs, the peculiarities of commercial law, the character of the money market, and the like. In order to provide such general information, plus answers to a host of specific questions which pour into the Bureau in every shape and manner, the Department of Commerce maintains in foreign countries 32 offices staffed by specially qualified representatives.

In addition to their activities, there is a working agreement with the Department of State which permits the use of the Consular Service in areas where the Department of Commerce has no representative. These men in the field not only act as channels through which information flows back to Washington and then on to the business community, but also represent American industry at their stations. They are continually on the look-out for opportunities for the export of American goods and persistently strive to represent fairly to the foreign buyer the special qualities of American products.

In the Washington offices there is a staff of experts which analyzes the material reported from the field. Not only are there experts in such general subjects as tariffs, commercial laws, regional information, and finance and investment, but also men representing various types of industries who have had experience in foreign trade and who can therefore easily understand and interpret to the industries which they represent the information which is so sorely needed.

There is no easy way in which one can measure the service rendered to American business by this type of activity. Perhaps the safest thing to say is that no other agency could possibly perform these functions, and that they must be performed by someone.

In the field of domestic commerce, the part which should be played by a Government agency (*Cont. on page* 38)

Inflation: blessing or menace?

by FRANK J. TRAVERS
Lincoln Nat'l Life Insurance Co.
Fort Wayne, Ind.

Rising into ascendency on the horizon of the new deal is inflation, a star whose coming has long been awaited by some as a blessing and dreaded by others as a menace. One hesitates to use the word at all because of the many varied conceptions of its meanings and because there is or should be a distinct odium about it since it produces the illusion of getting something for nothing.

The volume of money and paper currency has a small influence upon employment and business activity. In 1929, with five or six billion dollars of money and paper currency, this country had bank deposits of 52 billion dollars and total check transactions of 600 billion dollars! About 90 per cent of all business transactions are paid by check. The volume of business depends not upon the amount of money and paper currency, but upon the rapidity of turnover of bank deposits. In a sense, business is still done largely by barter (exchange of goods and services) through the medium of check transactions, money being merely the measuring-rod of value. Confidence in the stability of the monetary standard encourages rapid turnover. Tampering with the monetary standard disturbs business and confidence and reduces turnover.

All this leads logically to a consideration of the gold standard. A bushel of wheat is officially defined as 60 pounds, and the foot is an officially and arbitrarily assumed standard for measurement of distance. In the same manner, a definite weight of gold (25.8 grains to the dollar) was the official measuring-rod for value, until our abandonment of this gold standard last spring. Now there is no official standard. Sooner or later, we must again adopt one, so that long term business contracts can be made with confidence.

In every major boom period there is a huge amount of borrowing, largely speculative. When the crash comes, interest and tax burdens become oppressive and a clamor arises for devaluation of the currency as a subtle means of repudiating debts. For example, if you had loaned me 10,000 bushels of wheat several years ago and I were now hard pressed to repay the loan, I might be tempted to have the official definition of a bushel reduced from 60 pounds to 30; then I could more easily repay the loan of 10,000 bushels. Yet in justice I would have repudiated one-half of my debt to you. This is what the devaluationists propose to do when they change the dollar, until recently defined as 25.8 grains of gold, to perhaps 12.9 grains.

It should be evident that to the extent borrowers are benefited by manipulation of the currency, the rest of our people will be hurt. If instead of devaluing the dollar, borrowers were relieved more directly by having their debts cut one-half, all of us who have life insurance or bank deposits would have our savings cut in half—for do not the assets of life insurance companies and banks consist almost entirely of the borrowings of corporations, municipalities, nations, individuals, in the form of notes, mortgages, and bonds?

If borrowers have their burdens eased by devaluation instead of direct reduction of their debts, will the results be any less detrimental to the 35 million life insurance policyholders or to the more than 30 million bank depositors? Devaluation will force these thrifty people to face sharply rising expenses and a reduced standard of living, in order that the debt burdens of borrowers may be eased. Once the example of devaluation is established, there will be pressure for further devaluation after every boom of the future, when borrowers are once more under pressure.

Latin-American survey

(*Continued from page* 19)

Guatemala, Brazil, Honduras, Costa Rica, Salvador and Peru are classified as Fairly Prompt, with a collection index of between 50% and 70%. Collections from Cuba and Colombia are only between 40% and 50%, and are in the general classification of Slow. Both of these countries have shown a decline from the collection index of the previous survey. In the classification of Very Slow, which is below 40%, are such countries as Argentina, Paraguay, Bolivia, Nicaragua, Uruguay, Ecuador and Chile. Argentina is the most notable in this classification in that the situation in this country in the opinion of those contributing to the survey, brought about so much delay as to permit of only a Very Slow rating for collections from this country.

The general result of the credit and collection survey in the third quarter would indicate that a period of uncertainty exists, and may turn with basically favorable developments toward an upward movement over the last quarter, and into the new year. Prompt steps are necessary to definitely build toward better trade relations and a solution of exchange problems. The picture may again change with an unfavorable note and turn to more unstable and unsatisfactory conditions than now exist. Conditions are still difficult and will continue to be so for some time at best,

Report on Fire Prevention Week

Following the leadership of President Roosevelt, who issued a national proclamation, the National Board of Fire Underwriters reports, the governors of at least forty-three of the 48 States proclaimed Fire Prevention Week in their respective States.

The railroads and steamship lines of America, the National Board says, cooperated finely in distributing and displaying Fire Prevention Week posters. Many posters were also supplied to manufacturing plants in large numbers, and altogether the National Board distributed more than 200,000 posters throughout the country.

The demand for Fire Prevention Week stickers was so great this year that the usual supply was nearly doubled, and 2,000 posters of special size and on heavy stock were supplied to the Postal Telegraph Co. for display in its windows all over the United States.

Old Masters

Insurance digest

Inaugurated because of the credit fraternity's close contact with the insurance field and need of information about it.

Tribute to insurance

Paul Tomlinson, Financial Editor of Harper's Magazine, paid a fine tribute to stock fire insurance companies in a recent issue of that publication. His remarks also included a compliment for the National Board of Fire Underwriters.

"At its 67th annual meeting held in New York the latter part of May," Mr. Tomlinson writes, "the President of the National Board of Fire Underwriters made the interesting and significant statement that stock fire insurance is 'the only nation-wide business in the country about whose stability and ability to meet its engagements no doubt has been raised.'

"This is a highly honorable distinction, but it does not mean that stock fire insurance has escaped the problems and difficulties which have faced business generally. Its difficulties have been many; its problems have been serious. All the more credit, therefore, that at no time has the financial condition of the stock fire insurance companies excited public apprehension. No extraordinary measures have been necessary to enable them to continue to function in regular and dependable fashion. There has been no moratorium, state or national, for stock fire companies.

"Property owners throughout the period of the depression have been adequately protected against damage from fire. They have taken this protection for granted, which in itself is a high compliment to the insurance companies, and the very best proof available that the business is financially sound and efficiently conducted. It is a fortunate thing for the country that this is so; with credits disorganized as they have been, with property values of all kinds not only ruinously depreciated but extremely undependable, our economic plight would have been much worse even than it has been if the indispensable protection of sound stock company fire insurance had been unavailable to the owners of goods, factories and homes.

"The address of the President of the National Board of Underwriters at the annual meeting mentioned above showed in striking fashion the problems faced by the companies and the methods employed in solving them. Premium income in 1932 decreased over $58,000,000 from the previous year. In the past two years premiums have shrunk 22.8%, due in large measure to the decline in the rate per $100 of insurance. Before the war stock fire insurance companies were receiving nearly $1.10 for each $100 of insurance they wrote; at the present moment the rate is scarcely more than 70 cents. These lowered rates increase the difficulties of the companies, and must not be carried too far if the people buying fire insurance are to have adequate protection, which after all is the one thing in which they are interested.

"In the year 1932, companies holding membership in the National Board paid $18,363,649 in state, national and local taxes, or 4.08 per cent of the total net premiums written in that year. Many people feel that fire companies, on sound economic grounds, should pay no taxes at all; certainly it is a questionable policy to use them as involuntary tax-gatherers.

"All property owners must carry fire insurance. Is it fair to make them pay a tax of over four per cent for this necessary protection? Perhaps if policyholders were all aware of the fact that they are paying this tax they might do something about it; also it would be to the advantage of the fire insurance companies if they made the situation clear to their clients, emphasizing the fact that part of the premium paid is not for fire protection at all, but for taxes, and outside the control of the companies. To quote the words of the President of the National Board of Fire Underwriters once more: 'If ever there was a time when the executives and other representatives of stock fire insurance were in duty bound to contribute the lessons of their experience to the formulation of the Nation's economic and social policies, this, in my opinion, is that time.'

"The stock company fire insurance companies, in spite of all the problems of business in the past three years, have, as one man put it, 'been tried by fire and not found wanting.' Their incomes have been greatly reduced, but they have reduced controllable expenses to bring them within their incomes. They have demonstrated in the past that their system was fire-proof; they have now shown themselves to be depression-proof.

"Fire insurance is one of our great essential industries. A property owner would no more consider being without adequate fire protection, than without a lock on his front door. And properly written fire insurance, unlike some locks, always protects.

"Further, the interests of the stock fire insurance companies are identical with those of the insuring public. These companies have proven that they are strong; it is to the interest of every holder of a fire policy to keep them strong. They must not be taxed unduly, and they must be allowed to fix

rates so that a fair margin of safety for the protection of their policy holders remains over and above the necessary expenses of operation.

"The fire insurance business is in sound condition today. This is because the bases of its operating structure have always been character and experience.

"An improved economic situation is going to benefit the fire insurance companies just as it will help every other sound enterprise. An already strong system is going to grow stronger, a comforting thought for every owner of property, and a fortunate circumstance for the whole of our industrial civilization."

Tribute—No. 2

President Roosevelt sent the following letter to Lester O. Schriver, program chairman of the National Association of Life Underwriters, which was read at the recent convention:

"The White House,
Washington, D. C.
September 21, 1933.

"My Dear Mr. Schriver:

"Will you please express to all those present at the annual convention of the National Association of Life Underwriters my sincere greetings and good wishes?

"Insurance, and particularly life insurance, plays a very important part in our national picture. It affords to the individual a margin of safety for his loved ones, thus enabling him to go about his business unhampered by fear for them in the event of accident or death and giving him wider latitude in his undertakings.

"The merits of life insurance have now come to be well recognized and the insurance policy plays an important part in the background of the American family. In bringing this about you have rendered an outstanding service, and by the same token you have contributed in large part to our national progress.

"I hope your convention is very successful.

"Very sincerely yours,
"Franklin D. Roosevelt."

Woman driver

"Red or white gas, Miss?" asked the filling station man.

"Well, I need some red for the tail light. It's gone out."

Challenge

"Hello, is this the Better Business Bureau?"

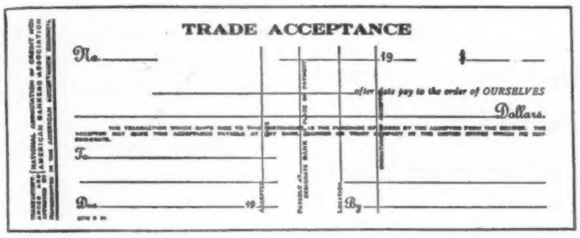
"Yes."

"Well, how'd you like to come down and make ours a little better?"

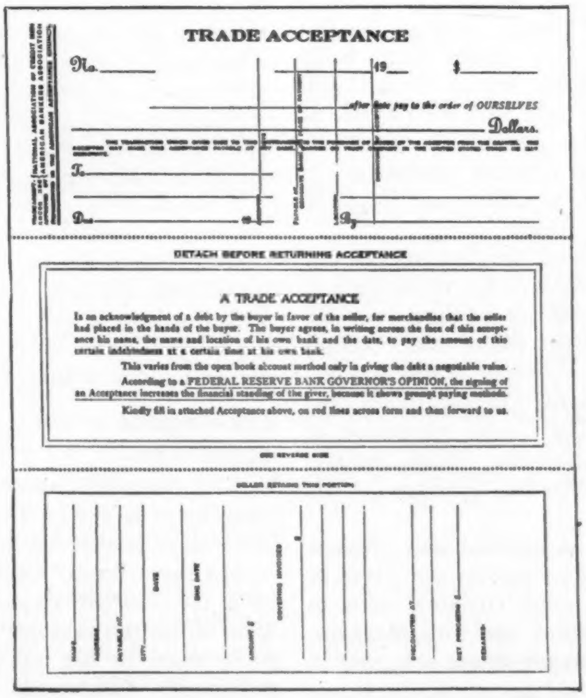
Accept the Acceptance

More and more firms are using the Trade Acceptance to put a maturity date on receivables, to bind the contract and create a real negotiable value for accounts. Trade Acceptances provide the cleanest-cut way to handle a credit transaction. Furnished in single, double or triple form on safety check paper; the double and triple forms providing file records.

Single Form



Triple Form



Prices Postpaid

	Plain	Quantity	With Name
Single Form	$0.75	100	——
	1.75	250	$3.75
	3.25	500	5.50
	5.50	1000	8.75
Double Form	$3.90	250	$6.00
	6.75	500	8.50
	12.25	1000	14.50
Triple Form	$5.00	250	$7.00
	8.90	500	11.00
	15.50	1000	18.75

Notes About Credit Matters

Centralized control needed

A trade association secretary reporting to his clients the results of his efforts to defeat a composition offer of 10% was obliged to admit that while he represented all the claims within his own industry they were less than one-third the number and one-half the amount necessary to control. Due to the fact that these other claims were being handled by other similar organizations all went into court with the purpose of serving his own particular industry with the result that different interests got to working at cross purposes and the creditors paid the freight.

This furnished another concrete example of how the failure of creditors to exercise just ordinary intelligence in controlling insolvent estates reacts against them in such a manner as may be computed in actual values, notes the Bulletin of The Credit Association of Western Pennsylvania, which includes Pittsburgh, Altoona, Johnstown, and Uniontown.

The wise, economical and effective handling of such matters can never be accomplished until creditors learn to place their claims not with many organizations but *one* whose obligation it is to protect the interests of all. It was to furnish creditors with such a medium as this that the Adjustment Bureaus of the various Associations were formed.

Using these Bureaus in such instances as above referred to would not only produce satisfactory returns but forestall a great deal of the chicanery incident to composition settlements, many of which are put over for ridiculous amounts because the debtor assumes that creditors will not mobilize and fight.

Trade terms being defined

Many trade terms upon which neither business men nor writers have been able in the past to agree as to their definition are being defined in the Codes submitted to the National Recovery Administration. A number of terms in the field of marketing had to be defined by the Census Bureau in presenting the data from the Census of Distribution, while others which are used in the Codes must now have an agreed meaning established for the first time, "Domestic Commerce" reports.

Business men have found when they meet in conference that they have different ideas as to what some of the very commonly used terms mean, such words, for example, as "marketing," "distribution," "wholesaler," "overhead," "cost," etc.

Although many of the codes contain some definitions, the codes for the wholesale and retail food and grocery trades will serve as an example of the extent to which these agreements are establishing a legal and accepted meaning for trade terms. The first Article of each of these codes deals with definitions, giving the meaning of fifteen terms used. The trades found it necessary to define a "wholesale grocer," "retail grocer," an "outside salesman," "maintenance employee," "apprentice employee," and eleven other terms.

It may be found when all of the codes are compared with terms will have been defined differently by different trade groups, but the definitions now being written will serve to crystalize the meaning of terms now loosely used, and permit an accurate definition.

Los Angeles convention

"Our National Convention next year promises to be one of the most valuable and enjoyable that we have ever had" reports Brace Bennit, Convention Director of the National Association of Credit Men, on his recent return from Los Angeles, where he has just completed the preliminary Convention arrangements with our hosts-to-be, the Los Angeles Credit Men's Association.

The Convention will be held from June 11th to 15th, a time of the year when Southern California will be at its best and the time of year when that whole section of the country will afford a most enjoyable trip to the delegates who plan to combine their vacation with their attendance at the Convention.

We are most fortunate in the directing heads of the Convention work. Our National Vice-President, J. M. Rust, Treasurer of the Union Oil Company at Los Angeles, will be the General Convention Chairman and lend his excellent executive direction to the Convention promotion and the Committee work. He will be ably seconded by A. A. Normandin, President of Normandin Brothers and President of the Los Angeles Credit Men's Association, who will serve as Chairman of the Convention Executive Committee. At the right hand of these two leaders will be S. P. Chase, genial and efficient Manager of the Los Angeles Association, and O. S. Dibbern, Western Division Manager of the National Association of Credit Men.

The Convention headquarters hotel will be the Los Angeles Biltmore. Not only is it most livable and complete in caring for the personal comforts of delegates, but its arrangements for general sessions, group meetings, sectional banquets and special affairs of all sorts is complete. The hotel management has been most cooperative in making the preliminary arrangements and in assuring us of complete accommodation so that all delegates may be housed in the Convention headquarters hotel at a cost that is reasonable, both as to rooms and meals.

The Convention Director met with the Los Angeles Convention Committee on the Convention work that is necessary to start immediately. It is superfluous to emphasize the enthusiasm of our hosts or the assured energy they will give to perfecting all necessary Convention arrangements.

Interest in the Convention is already much in evidence. Many Associations are tying the Convention in with their membership and promotional work, notably those in the Western Division (although this also applies to several in the other sections of the country), who are making a whole or partially paid expense trip to the Convention the reward for attaining certain record of membership acquisition during the year.

Foreign exchange problems analyzed

The Foreign Credit Interchange Bureau of the N. A. C. M., is sponsoring a series of Round-Table Conferences on Foreign Exchange and Collection Problems during the winter months.

These meetings are being held at the Hotel Pennsylvania on the first Wednesday of every month, and Mr. P. M. Haight, Secretary-Treasurer of the International General Electric Company, and President of the New York Credit

(*Continued on page 37, col. 3, bottom*)

Credit careers

H. E. ENGSTROM

A new member of the official family of the National Association of Credit Men is Mr. H. E. Engstrom, credit manager for G. Sommers & Co. of St. Paul, Minn.

Mr. Engstrom is forty-seven years of age and was born in St. Paul. He has traveled extensively in Europe, Alaska and Canada, finding keen pleasure and satisfaction in intimate contact with other people in their native surroundings.

For many years he has been most active in the affairs of the St. Paul Association of Credit Men, also serving on committees of the National Association of Credit Men. Last year he was a member of the Nominating Committee at Detroit.

In 1929 he headed the local committee for the raising of the Second Credit Protection Fund and was the first of such committees to report the raising of its quota 100 per cent.

At the Milwaukee Convention last June Mr. Engstrom was a member of the Resolution Committee. At the close of this meeting he was chosen a director of the N. A. C. M. St. Paul has a worthy representative, indeed.

Promotions:

Cleveland

The Harris Seybold Potter Co., Cleveland, is pleased with the selection by the board of directors on September 27, 1933, of Norman L. Daney as general manager of the company.

Mr. Daney, a graduate engineer, has had extensive experience in corporate management, having been directly connected with production, accounting, and sales departments. He joined the Harris organization in May 1932 and was elected treasurer and director a few months later.

Mr. Daney's experience includes eight years in the engineering department of the United States Steel Corporation; eighteen years with the Cooper-Bessemer Corporation, Mount Vernon, Ohio, in various capacities as engineer, production manager, treasurer, and comptroller.

Mr. Daney

Coincident with his duties as treasurer of the Cooper-Bessemer Company, he acted as treasurer and general manager of two affiliated companies—the Chapman Engineering Company, a sales engineering organization devoted to manufacture and sale of industrial gas making machinery; and also treasurer and general manager of the Chapman Stein Furnace Company, sales engineers of industrial furnaces.

Mr. Daney in addition to his duties as general manager of the company will continue to serve as treasurer. He represents the firm in the Cleveland Association of Credit Men.

Salt Lake City

Mr. A. B. Smith, of the Utah Wholesale Grocery Company, formerly credit man of this business, has been promoted to the General Management of the firm, succeeding the late John C. Deal. The company is a member of the Inter-Mountain Association of Credit Men at Salt Lake City and does an extensive grocery business in the states of Utah, Idaho, Wyoming, and Montana. This promotion is undoubtedly well deserved and speaks well for the influence of the Credit Department in the affairs of such a large corporation.

Boston

Ira Mosher has been elected Vice-President and General Manager of the American Optical Company. Since joining American Optical Company in 1922 as Comptroller and Assistant Treasurer, Mr. Mosher has been called upon to accept added responsibilities each year. He has served as Chairman of the Operating Committee and was elected Treasurer of the Company in 1931.

He came there from Northwestern Leather Company, Boston, and was previously with Scovell-Wellington Company of Boston in public accounting work and is a Certified Public Accountant of Massachusetts.

In addition to his AOCo. affiliation, Mr. Mosher has been actively connected with many local activities and enterprises. He is a Director of Hamilton Woolen Company, Treasurer and Director of the Russell-Harrington Cutlery Co., Director of the Southbridge National Bank, and Treasurer of the Better Vision Institute, New York. He has been active in local Government affairs by serving as Chairman of the Finance Committee and of the Town Government Committee, and also in the Boston Credit Men's Association.

Edward E. Williams was appointed to succeed Mr. Mosher as Treasurer of American Optical Company. Mr. Williams joined the local Company in 1923 after having served some years with Scovell-Wellington Company. He came here as Assistant Comptroller and was made Comptroller in 1931. Mr. Williams is a Director of the Comptrollers' Institute, of America.

(Continued from page 36)

Men's Association is the Chairman.

The meetings are open to any firms interested in the problems to be discussed and out-of-town firms may submit questions in writing which will be taken up for discussion if time permits.

Minutes of the meetings are available at $1.00 per copy. The first meeting was on Oct. 4 and the next on Nov. 1.

In submitting questions for discussion, or ordering copies of the minutes, address Mr. Kenneth H. Campbell, Service Manager of the Foreign Credit Interchange Bureau, 1 Park Ave., N. Y.

Uncle Sam's helping hand

(*Cont. from page* 31) is not so clear. One may describe the economic structure as having as its base single business enterprises, then a grouping of these units into industries, and then the whole, our economic system. It is evident that the obligations of the Government increase as one expands the breadth of one's vision. It would be a decided misuse of public funds for a Government agency to engage in work and study which would result solely in profit to an individual enterprise. It might be proper for the Government agency to render assistance to an entire industry. It certainly is proper for the Government to undertake studies which may result in benefit to the entire economic system. To be sure, these distinctions are not always easy to make. It may be, for example, that some research project may properly be undertaken in a limited field in order to determine upon a method which could later be applied to similar projects by private agencies.

Perhaps nothing better illustrates this point of view than the general policy of the Government with regard to interference in economic matters. When a single business enterprise proves unsuccessful, the Government shows little apparent concern; when a whole industry appears to be in trouble, the Government sometimes shows concern; when the entire economic system appears to be in difficulty, then the Government accepts the responsibility for dealing with the situation. If, then, the Bureau of Foreign and Domestic Commerce represents the service arm of the Government in connection with business activity, and if the Government's primary concern is with the economic system as a whole, it follows that the entire sweep of industrial activity comes within the scope of the Bureau of Foreign and Domestic Commerce. Its work must be so planned as to provide that basic information so essential to determination of wise policy.

When a patient is critically ill, the doctor seeks every possible bit of available data. He examines every symptom; he keeps the patient under almost continual observation; charts are drawn of temperature, and statistics kept of blood pressure. The doctor then draws upon his own experience and the experience of other doctors dealing with similar ailments in the past. He may prescribe an operation, but after the operation—unless it is obviously unsuccessful—he does not stop his careful study. He watches for the possible emergence of new difficulties and the disappearance of certain complications.

This same procedure must be followed in any attempt to attain stability in our economic system. Each business man must continually review his own records; each industry must be studying its internal developments; and the Government representing industry as a whole must keep its finger on the pulse.

This would not be a fair picture—assuming that such a hasty sketch can be described as a picture at all—if it did not indicate the services which the Bureau of Foreign and Domestic Commerce renders to other branches of the Government. One is apt to think of Government organization as consisting of a number of separate Departments housed in separate buildings with high barriers between. As a matter of fact, there is an extraordinary amount of inter-Departmental activity continually going on.

In problems of international economic policy, where jurisdiction rests with the State Department, underlying data are usually provided by the Bureau of Foreign and Domestic Commerce. When financial problems have definite international implications, the Bureau contributes its material to the Treasury Department. The National Recovery Administration and the Agricultural Adjustment Administration have leaned heavily upon the Bureau. As varied organizations as the Tariff Commission, the Tennessee Valley Authority, the Emergency Conservation Work, the Shipping Board, and the Subsistence Homestead Division have all recently been served by the experts on the Bureau's staff. Likewise, the Bureau continually receives assistance from other agencies.

The future of the Bureau of Foreign and Domestic Commerce is extremely difficult to forecast. The possible scope of its service to the business community has steadily widened. Cooperation between industry and the Government in solving our economic problems offers great potentialities. With a desire on the part of the Government to be of the greatest possible service, and an eagerness on the part of industry to cooperate, great strides can certainly be taken in the direction of achieving that longed-for goal of security and stability in our economic life.

Gauging "Capacity to Pay"

(*Cont. from p.* 9) volume of sales)—This is the volume of Sales divided by the Liquid Capital. When this turnover is greater than others in same business, it might show either speculative tendencies or insufficient capital to do the volume. If this large use of credit does not bring large profits, it becomes subject to added criticism.

TURNOVER OF MERCHANDISE—(in comparison with the Turnover of Liquid Capital)—This is the volume of Sales divided by the value of the Merchandise inventory. In general, the Turnover of Merchandise in businesses operating on a moderate gross profit, should be greater than the Turnover of Liquid Capital to insure a net operating profit.

MERCHANDISE TO RECEIVABLES—An excessive percentage of merchandise would indicate either an inventory badly assorted for sales purposes or one not properly depreciated or speculative tendencies for a rise in values.

MERCHANDISE TO LIQUID CAPITAL—An undue proportion of Merchandise to Liquid Capital is an indication of a poorly proportioned Current Ratio as well as a business operating on too large a volume for its Liquid Capital.

DEBT REFLECTED IN MERCHANDISE—This is the dollar deficiency between the total of cash and receivables and the total debt, to show the amount of liability to be met from future sales of merchandise.

NET PROFIT TO GROSS CAPITAL—This is the percentage of Net Profit to total capital investment. This demonstrates whether the earning power of the business is in good proportion to the investment therein.

PLANT TO GROSS CAPITAL—This is the percentage necessary to see where large investment in plant is shown. Excessive investment in plant and machinery is often the cause of short profits, and inability to liquidate current debts.

CASH TO BANK LOANS—This is the percentage of cash on hand to bank loans including bank acceptance obligations, and is useful to demonstrate the ability of the borrower to carry a reserve against obligations to bank creditors.

Mr. Benjamin pointed out that only the first six of the above formulas are needed in the average credit analysis and that the others are presented merely for use in special cases.

Rejuvenation

An old man went to a gland specialist and asked how much it would cost to rejuvenate him.

"To make you feel like 30 again, it will cost you $1,000," said the surgeon. "But to make you feel like 25 again will cost $2,000, and anything below that age $5,000."

"I don't care about the cost; just make me 18 again," said the oldster. The operation was a success. But when the surgeon sent in his bill the rejuvenated one sent it back with this notation: "You can't collect from a minor."

—*Louisville Credit Chips.*

Overconfident

Applicant: I am a practical farmer. I can plow, reap, milk cows, shoe a horse—in fact, I should like you to tell me one thing about a farm which I cannot do.

Farmer (edging for the door): Can you lay an egg?

Reason for thankfulness

"Thankful! What have I to be thankful for? I can't pay my bills."

"Then man alive, be thankful you aren't one of the creditors."

Is your brain insured?

(*Cont. from page* 13) an article which has appeared previously and for this reason I will not touch on the manner of handling this insurance. If for some reason, it is not clear, I refer you to the December, 1932, issue. I do, however, wish to emphasize the importance of having a business insurance agreement to go with the protection and the advisability of using a trust company to administer the proceeds of the policies.

There is another field for life insurance and since there is a field for selling it, there must be a need for buying it. This is the replacement value of an important employee or a "key" man. If you are a manufacturer and you have a designer whose ideas you sell, you need replacement insurance to protect you against the loss by reason of his death "in season" when you cannot get another. Another angle of the idea . . . if these people are valuable in the event of death, they are still valuable while alive, should they leave to go to a competitor. Therefore, to keep goodwill and to make the employee happy, a policy is bought and paid for by the firm and *GIVEN* to the said employee, made payable to whomever he might wish, and the premiums paid annually by the firm.

This idea is the sole one behind group insurance, and if the idea is valuable on a large scale, its value increases as the idea is concentrated on the key man. In this instance, and it is practically the only type case, the premiums involved are a deductible item from income tax. This does NOT apply in replacement insurance, for the deduction is only allowed where the firm does not benefit from the proceeds of the policy.

Still another field which is opening up is the use of Life Insurance as a sinking fund to retire a bond issue, a mortgage, or to provide cash for any given reason at some future date. Since the well known Wall Street explosion in 1929, people are turning to Life Insurance in the form of Endowment Policies to do this, only because of the GUARANTEED RETURN, plus a *reasonable* interest yield in the form of dividends. As an example of this type of protection, I cite the case of the B. T. Harris Company of Hartford, Connecticut.

CASE D:

In 1928 the B. T. Harris Company decided on an expansion program and floated a one million dollar, five percent, bond issue. In order to make it more attractive, the Wall Street bankers insisted on a clause providing that at the death of Mr. Harris, prior to 1948 when the bonds were callable, the bonds would immediately be redeemed at 106. In order to protect this hazard, one million dollars of life insurance on the twenty year endowment plan was purchased on Mr. Harris' life. This policy was to act as a sinking fund to meet the obligation when due, but in addition, would act as an investment due to dividend return which would start at some \$6,000.00 and work up to approximately \$18,000.00 at the end of the 20th year. These dividends would not be reported on the Federal Income Tax Return until the total (*Cont. on page* 41)

In the modern office

An idea and experience exchange on equipment, system and management in the modern credit and business office.

Burroughs has large exhibit

Displaying more than 100 business and office machines, such as typewriters, cash registers and accounting machines, and occupying more floor space than ever before, the Burroughs Adding Machine Company's exhibit at the National Business Show was one of the most impressive ever sponsored by Burroughs.

Included in the display were the following products: Improved models of standard typewriters and also those having motor-returned carriages; new cash registers in several registering capacities and various color combinations; new typewriter bookkeeping machines with many improved automatic features; low-priced desk model bookkeeping machines which put mechanical bookkeeping within reach of thousands of the smaller businessess; a food-beverage cash machine for restaurants and beer dispensers; a new bank posting machine which gives the required information for calculating service charges and for analyzing accounts; as well as many other entirely new machines and developments.

Given an outstanding part in the display was the new Burroughs Typewriter with motor-returned carriage. Special demonstrations dramatically presented the advantages of the motor-returned carriage over the ordinary hand-returned carriage. In speaking of the importance of this new machine, President Backus of the Burroughs Adding Machine Co., said, "We believe that the greatest advance made in the typewriter art in many years is the introduction of the new Burroughs typewriter with an electric motor to return the carriage, shift the platen and do the vertical spacing. As these three operations are all controlled from the keyboard, the operator's hands can remain in typing position without the interruptions required to perform the same operations on the ordinary typewriter."

In the accounting machine division were two outstanding improvements, namely, a typewriter bookkeeping machine with new automatic features including electrically driven result keys which permit printing a total or balance by the depression of a single key without the use of the motor bar, and a commercial bookkeeping machine with a new type of carriage for posting ledgers and statements, both being originals.

A full line of desk model or portable adding machines comprised another unit of the display. These included the newest models with plus and minus motor bars, subtracting as easily as they add and computing credit balances. Adding and adding-subtracting machines were shown with various capacities and in a variety of finishes and colors.

A portion of the exhibit was devoted to Burroughs Calculators including the popular electrically-operated models. These machines were demonstrated on various applications most prominent of which is the summary board method of distribution, analysis and summarization.

Correct-posture chairs, which now include a design for executives, were on display as well as in use at the exhibit.

The exhibit included a display of accounting machine and typewriter accessories, such as carbon paper, adding machine and typewriter ribbons, and rubber keytops.

Dr. Johnson and Mr. Morgan, Sr., agree!

Although somewhat chagrined over the current "state of stocks," brokers and market followers in Wall Street gathered a hearty laugh out of a pamphlet quoting a letter written by Dr. Samuel Johnson, the great English literary light of the eighteenth century, to a Mrs. Thrall on the "State of Stocks."

It was dated October 6, 1783, a decade before a group of New York brokers met under the buttonwood tree in Wall Street to trade.

Whatever differences existed between stock market conditions then and now, Dr. Johnson was in agreement with the late J. P. Morgan that the most certain thing about stocks was that they would fluctuate. "Their essence seems to be fluctuation," notes Dr. Johnson.

The paragraph, as printed in the pamphlet, which preserves the old spelling and flavor, follows:

"The state of stocks I take to be this: When in the late exigencies the ministry gave so high a price for money, all the money that could be disengaged from trade was lent to the public. The stocks sunk because nobody bought them. They have not risen since, because the money being already lent out, nobody has money to lay out upon them till commerce shall by the help of peace bring a new supply. If they cannot rise, they will sometimes fall; for their essence seems to be fluctuation. But the present sudden fall is occasioned by the report of some new disturbances and demands which the Irish are machinating."

All of which enhanced the standing of Dr. Johnson in Wall Street as one of the original market letter writers.

STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY THE ACT OF CONGRESS OF MARCH 3, 1933. Of CREDIT and FINANCIAL MANAGEMENT, published monthly at Philadelphia, Penna., for October 1, 1933.

STATE OF NEW YORK,
COUNTY OF NEW YORK, ss.

Before me, a Notary Public in and for the State and county aforesaid, personally appeared Richard G. Tobin, who having been duly sworn according to law, deposes and says that he is the Editor and Manager of the CREDIT and FINANCIAL MANAGEMENT, and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management, etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912, embodied in section 537, Postal Laws and Regulations, printed on the reverse side of this form, to wit:

1. That the names and addresses of the publisher, editor, managing editor, and business managers are: Publisher, National Association of Credit Men, 1 Park Avenue, New York City. Editor, Richard G. Tobin, 1 Park Avenue, New York City. Associate Editor, Paul Haase, 1 Park Avenue, New York City. Business Manager, Richard G. Tobin, 1 Park Avenue, New York City.

2. That the owner is: National Association of Credit Men, a non-stock corporation with the following officers: Ernest I. Kilcup, Davol Rubber Co., Providence, R. I., President; J. M. Rust, Union Oil Co., Los Angeles, Cal., Vice-Pres.; P. M. Millians, Ernest L. Rhodes Co., Atlanta, Ga., Vice-Pres., F. J. Hopkins, Janney-Semple-Hill & Co., Minneapolis, Minn., Vice-Pres.; H. H. Heimann, 1 Park Avenue, New York City, Executive Manager, Sec. & Treas.; W. S. Swingle, 1 Park Avenue, New York City, Asst. Treas.

3. That the known bondholders, mortgagees, and other security holders owning or holding 1 per cent. or more of total amount of bonds, mortgages, or other securities are: None.

4. That the two paragraphs next above, giving the names of the owners, stockholders, and security holders, if any, contain not only the list of stockholders and security holders as they appear upon the books of the company, but also, in cases where the stockholder or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting, is given; also that the said two paragraphs contain statements embracing affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustees, hold stock and securities in a capacity other than that of a bona fide owner; and this affiant has no reason to believe that any other person, association, or corporation has any interest direct or indirect in the said stock, bonds, or other securities than as so stated by him.

RICHARD G. TOBIN, Editor and Manager

Sworn to and subscribed before me this 20th day of October, 1933.

RUTH E. HOCTOR,
(Seal) Notary Public, Kings County
Clerk's No. 55, Reg. No. 4053
Certificate filed in New York County,
N. Y. Clerk's No. 106, Reg. No. 4-H-55
My commission expires March 30, 1934.

Is your brain insured?

(*Cont. from page* 39) of same, plus the cash value of the policy, equalled the tital premiums, which point would not be reached for some sixteen or seventeen years, at which time the annual dividend would be reported as taxable income, and this for only three or four years. Unfortunately for Mr. Harris he was killed six months after the program was executed, with the result that the bonds were recalled at 106—the holders earned 2½% interest for the six month period —the company was relieved of its obligation—the expansion program and the plans of the company went on and on and on . . . all for $52,000.00.

The same is true where the insurance is used to amortize a mortgage or to replace an expensive piece of machinery. A deferred annuity plan is sometimes used where income is desired at a future date, or where, under such a plan, the cash value may be withdrawn and would provide a greater amount than through Life Insurance. The advantage of the annuity is greater cash—the disadvantage is a mere refund of deposits as against payment of face of policy under life insurance, in the event of prior death.

In conclusion, we might say that wherever there is a need for money, that need can be GUARANTEED by means of life insurance, whether it be known as "Business Insurance" "Family Insurance" "Brain Insurance" or the very simple and plain "Life Insurance." This need exists in all types of business, large or small, single or multiple man-power organizations, whose interest is to keep the business intact.

Traditions and pioneers

(*Cont. from page* 21)
There came to the front also at this time a determination to curb one of the favorite practices for defrauding creditors within the law by selling stocks of goods in bulk by debtors who flitted away after the sale had been consummated and could seldom be reached or heard of. This type of sale was beyond the powers of the credit department to control, it was strictly within the law and, therefore, to curb it and to protect creditors against the insidious practice, special legislation had to be devised for enactment in the various States. From this agitation there arose the Bulk Sales Laws that now control in all of the States and territories of the nation.

This particular work of the National Association of Credit Men has saved creditors a vast fortune measured in dollars and it is a protection for which present day business should be forever grateful to the organization and those who so laboriously worked it out. Minnesota was probably the pioneer in the Bulk Sales Law field, having obtained a statute in 1899. At the fifth Convention in Milwaukee during June, 1900, the delegates were very much aroused by this important crusade and by what Minnesota had accomplished. The Legislative Committee expressed gratitude and encouragement to the Associations that were campaigning for the measure and following the Convention Maryland and Louisiana took their places as pioneers in this legislative campaign. From year to year other States were added to the roster until the business of the nation had thrown around it a cordon of protection that has meant much more than the public mind will ever conceive in the saving of waste and the defense of business honesty.

At the Milwaukee Convention, where the proceedings began to show the formative power of years and a stronger grasp of the nation's credit needs, Mr. Field was reelected (*Cont. on page* 42)

Traditions and pioneers

(*Cont. from page* 41) for a second term and the new Secretary, Mr. Prendergast, could report for the year a generous increase in membership with a total roster of 3006

Mr. Field's second term was occupied with the persistent efforts to amend the National Bankruptcy Act, to secure Bulk Sales Laws and the arising of a new plan that had occupied very much of the credit thought to prosecute credit crimes. This was one of the original ideas of the organizers and it had been resolved by the Committee of Investigation that a fund of $10,000 should be raised by popular subscription and used quickly and judiciously in the investigation and prosecution of credit fraud. The idea was one of the most foremost at the Milwaukee Convention.

Each year strengthened the sinews of the National Association of Credit Men; each year consolidated the sentiment and the ideas of credit departments toward what an organized effort could accomplish; each year recorded progress, and with an eye single to sound and constructive objectives, with internal political contentions, consistently tabooed, there was no opposition or unfriendly criticism that could hold back the Association's onward march.

When the sixth Convention assembled in Cleveland during June, 1901, there could be distinctly felt a spirit of comradeship that was knitting the credit fraternity together in the finest bonds, and that could only be disturbed or stunted by a rising tide of commercialism that swept the best of humanities into the swirl of greed. The Convention was enthusiastic, the entertainment splendid, and the election carried through with only the friendliest debates. Mr. E. A. Young, of St. Paul, was elected at Cleveland to succeed Mr. Field. Mr. Young had been among the foremost of the Association's active workers, his ideas were usually convincing and it was only natural that he should receive the highest gift within the Association's power.

It was no stretch of the imagination to realize that the five years of functioning with a consistency of ideals, with selfishness completely discarded, had laid a foundation upon which a great and imposing structure could be built. There could be no question now of the Association's usefulness. It had accomplished and was in the process of accomplishing its highest objectives. It was commanding public attention, it was winning confidence, and all that was needed was the building of a structure that could stand the divers currents of business ambition and ideas. The foundation years showed not the least crumbling, there was a solidity that defied the severest attacks. There was an idealism that mellowed the credit profession and made human beings of men who had formerly thought that they should go about their work as beasts of prey.

During these foundation years there was found in the forefront of all serious activities and difficult objectives a number of very fine men whose names should be blazoned high in the Hall of Honor; I should like to mention all of them but only a few can be included in this historical sketch; I would mention in addition to those who were presented in former chapters John R. Ainsley, of Boston, A. C. Case, of Pittsburgh, Thomas Todd, of Baltimore, C. S. Foster, of New Orleans, J. T. Jenkins, of Nashville, F. W. Standart, of Denver, G. B. Pulfer, of Detroit, S. J. Kline, of Chicago, George G. Ford, of Rochester and Charles E. Meek of New York.

As a physical measurement of what the credit technique in the process of creation by the Association had actually accomplished for commerce and for finance, it is interesting to note that in 1900 our steel production for the first time exceeded 10,000,000 tons,—an increase of more than 100% in ten years. Copper production during the same period increased 150%, farm produce increased in value very nearly 100%, our manufacturing output increased 25% and our exports reached the high figure of nearly $1,250,000,000—the most impressive figure in this field of activity in our entire history. Bank clearances very nearly doubled in the decade, passing the seven billion mark in 1900. Our gold stock increased 60%, our bank deposits and bank loans recorded also large increases during the decade. The larger portion of this progress occurred in the last five years of the decade.

There was much that the founders could be proud of in the building of the foundation and when entering the twentieth century there was a great deal to encourage and to inspire, an organization of the very highest ideals and the most constructive purposes had been presented to the nation and it would make a lasting impression upon its commerce.

Canal-boat prosperity

(*Cont. from page* 12) it with the determination to make it work!

But first there must come a change of mental attitude. We too must develop as they are doing in Europe, a philosophy of life which says that the interests of society, rather than those of the individual or the firm, are paramount. Unmistakably there is developing a feeling that men can no longer be allowed to reap unlimited profits for themselves while cutting the wages of their employes to a subsistence level. If the profit motive is to be limited in its operations new incentives must be developed to motivate our business leaders so they will give us their best. Business men, in short, must be educated to adopt the professional attitude toward their work and their livelihood.

A profession, as I understand it, is constituted in any field of work where there is an accepted body of knowledge command of which is a pre-requisite for entrance, a code of (*Cont. on page* 47)

Insurance guards credits

(*Cont. from p.* 17) sufficiency of coverage in amount, but it also gives the reader of the statement an opportunity to check the quality of carriers of insurance coverage. The importance of the financial strength and type of carrier should not be overlooked.

Business Interruption, Leasehold and Rental Income insurance are three forms of insurance that are particularly necessary in certain types of business. Such concerns that have fixed overhead in the way of salaries to essential employees, fixed charges of any kind; that have income from rents on which they depend to meet overhead and expense find these types of protection necessary.

The remaining questions on coverage speak for themselves.

It is the intention that subsequent articles covering the specific lines of insurance as set forth in the statement will go more into detail and emphasize the points to be considered in analyzing the insurance statement and making any necessary corrective suggestions. The chain is no stronger than its weakest link and the insurance protection carried by the debtor can certainly be regarded as one of the links in the chain of factors that result in the acceptance of credit.

Answers to credit questions

Conducted by E. B. Moran

The National Association of Credit Men supplies answers to credit questions and some of the answers, of general interest, are printed regularly in Credit and Financial Management. Advice cannot be given, however, regarding legal rights and liabilities. Such advice should be obtained from an attorney to whom all the facts should be stated. When such inquiries are received, information is furnished only as to the general principle of law involved.

Garnishment

Q. In the State of Massachusetts, is it necessary to have a judgment against a debtor in order to garnishee his salary?

A. No. It is not necessary even that an action be brought. Theoretically the garnishment papers indicate a pending action, but it is not strictly necessary to file the action before the garnishment occurs.

Bulk sales act

Q. In a previous issue of Credit and Financial Management you referred to the states requiring a five-day notice to creditors by the purchaser of goods in bulk. In what does this notice consist, and how must it be given?

A. The notice consists in a declaration by the purchaser to all creditors of the seller, that he (the purchaser) is buying the entire stock and fixtures of the seller in bulk on a day named. No specific manner is indicated, but thirty-four states require the notice to be given "personally or by registered mail." In Idaho and Oregon the notice may be given "personally, by wire or by registered mail." Somes states merely say "notify," without specifying how, and Montana and Washington do not require any notice.

Bankruptcy

Q. Under the New York State law is a judgment more than four months old at the time of bankruptcy a preferred claim?

A. Under the bankruptcy law, a judgment, no matter how old is never a preferred claim. This is true even if execution has been entered on the judgment. Moreover even when a levy has been made under the execution any property found in the hands of the sheriff or marshal is subject to the jurisdiction of the bankruptcy court.

Remittances

Q. When a debtor is indebted to a creditor on a secured and an unsecured account simultaneously, and the debtor makes a remittance not specifying for which account, must the creditor apply it to the secured account?

A. No. When a debtor makes no indication as to which account the payment is made on, the creditor may apply it to either.

Public works construction

Q. In construction of a public building, must a contractor hire all union labor?

A. No. Under Title 2 of the National Industrial Recovery Act, a contractor engaged in public work may procure highly skilled labor from local trade unions, but if the local fails to produce such labor within forty-eight hours, it must be obtained through local reemployment agencies designated by the United States Employment Service. Wherever possible, all non-skilled labor must be procured from the reemployment agencies.

Election of remedies

Q. If a party to a contract has more than one remedy on the contract and brings an action based on one remedy, can he bring an action based on the other if he loses?

A. No. He is deemed to have made an election. The law says that where the plaintiff has more than one remedy on the same cause of action, and the relief obtained under one would obviate the others, and when he brings an action on one theory, he has made an election and is automatically precluded from bringing an action on the others.

Books

Q. Can you give me a list of six outstanding books on matters pertaining to Credits and Collections?

A. Credit and Its Management—Tregoe (Harpers, N. Y.)

Credits and Collections—Ettinger and Golieb (Prentice-Hall, N. Y.)

Effective Collection Methods—Gardner and Fall (Ronald Press, N. Y.)

Money circulation

Q. In the compilation of financial statistics, does a lesser or greater amount of money in circulation indicate greater prosperity?

A. A lesser amount. Money in circulation is money outstanding from the United States Treasury, and a greater amount indicates slow turnover, and in many cases hoarding. When business is good, money changes hands quickly with the result that there is less in circulation than when business is slow, and people are slow to spend it. Of course, the amount of money in circulation is not the only indication of the trend of business volume, due to the ratio of bank credit engendered by a single cash deposit.

Shipping

Q. In your column in Credit and Financial Management for October you established the liability for goods destroyed in transit under an F.O.B. contract. Under the same set of facts who would stand the loss under a C.I.F. contract?

A. Under that set of facts the goods were shipped from Chicago, Illinois to Bloomfield, New Jersey and destroyed near Binghamton, New York. There the loss devolved upon the purchaser because the goods had passed the F.O.B. point, Pittsburgh. Under a C.I.F. contract, the title passes as soon as the papers covering the shipment are sent to the purchaser, and title passes at the point of shipment. Here, too, the loss would devolve upon the purchaser.

Income tax

Q. (a) In computing deductions on taxable property what is the distinction between the terms "Depreciation" and "Obsolesence"? (b) What is known as the "straight-line" method of computing deductions because of depreciation?

A. (a) "Depreciation" of property signifies the normal wear and tear incident to the ordinary usage of the property; *e.g.,* if the life of a machine in its ordinary usage is five years, the annual depreciation is equivalent to twenty percent of the cost or market value, whichever is greater. "Obsolesence" is that which renders the property useless because of some new invention, economic change, etc.; *e.g.,* an apartment house without modern equipment such as elevator, etc., might have an ordinary life of fifty years, but it is rendered obsolete in ten by the construction of more modern buildings in the neighborhood. (b) The "straight-line" method of computing deductions for depreciation consists in an annual proration of the cost or market value of the property, less the salvage value; *e.g.,* a building costs $1,000,000 to build and has a normal life of fifty years. Its salvage value at the expiration of that period is $100,000. The straight-line method of deduction calls for a deduction of 1/50 or two percent of $900,000 each year.

Debtor and creditor law

Q. What constitutes insolvency within the meaning of the Debtor and Creditor Law of New York?

A. 1. A person is insolvent when the present fair salable value of his assets is less than the amount that will be required to pay his probable liability on his existing debts as they become absolute and matured. 2. In determining whether a partnership is insolvent there shall be added to the partnership property the present fair salable value of the separate assets of each general partner in excess of the amount probably sufficient to meet the claims of his separate creditors, and also the amount of any unpaid subscription to the partnership of each limited partner, provided the present fair salable value of the assets of such limited partner is probably sufficient to pay his debts, including such unpaid subscription.

Bankruptcy

Q. What are the qualifications necessary for appointment as trustee in bankruptcy?

A. Under Section No. 45 of the Federal Act, qualifications for trustee are as follows: Trustees may be (1) individuals who are respectively competent to perform the duties of that office and reside and have an office within the judicial district in which they are appointed or (2) corporations authorized by charter or by law to act in such capacity and having an office within the judicial district in which they are appointed.

Income tax

Q. Are interest and taxes chargeable against one's home, deductible from gross income in making income tax returns?

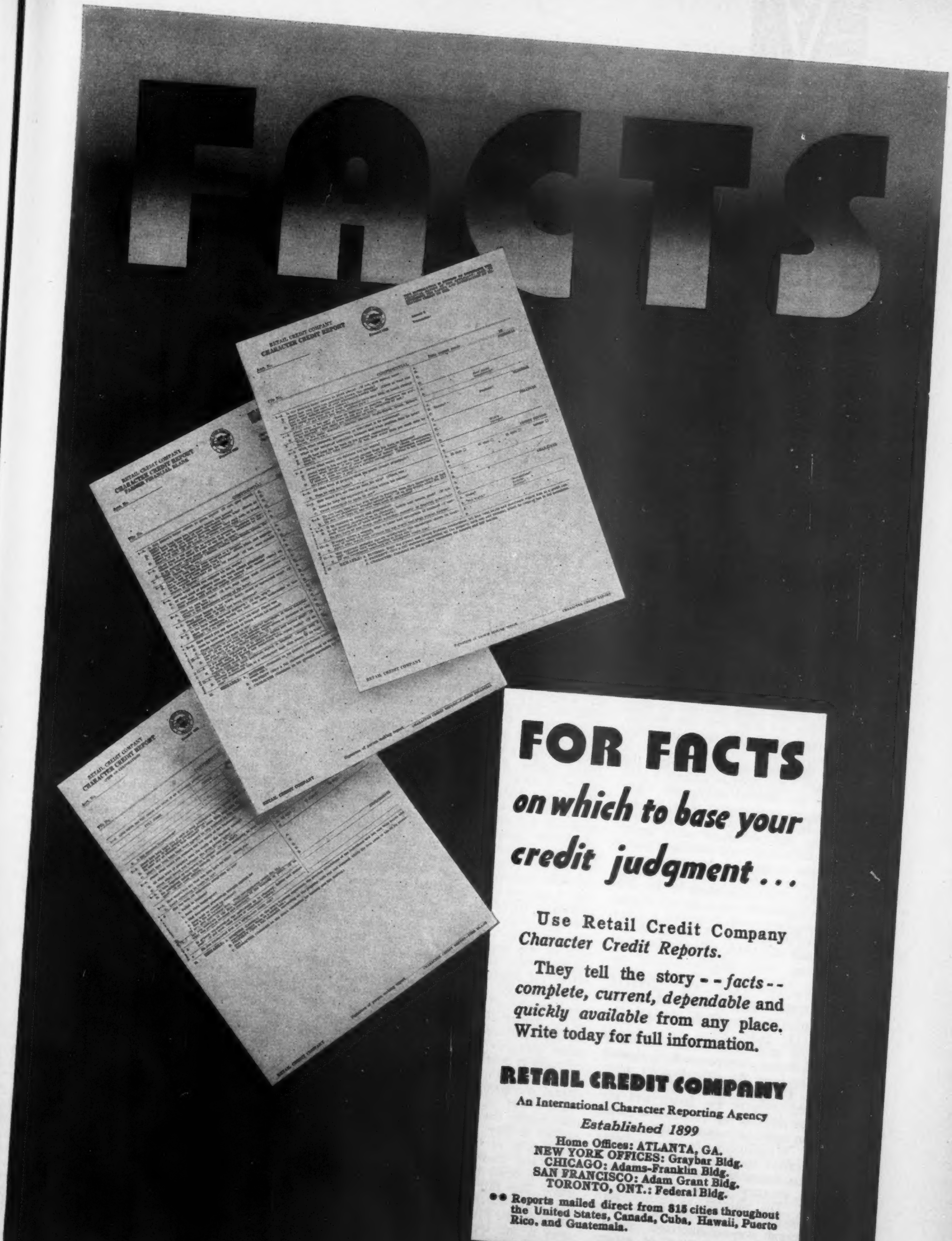
A. Yes. Interest and ordinary taxes are deductible under special provision of the Revenue Act of 1932. The statute allows deductions from the gross income of taxes paid or accrued within the taxable year with exceptions, they are:

1. Income or profits and excess profits taxes imposed by the authority of the United States.
2. Income or profits and excess profits taxes imposed by the authority of any foreign country or possession of the United States allowed as a credit against taxes under section 131 of the act.
3. Taxes assessed against local benefits of a kind tending to increase the value of the property assessed. However, the three exceptions doesn't exclude as a deduction such taxes as might be allocated to a maintenance or interest charges. Estate and inheritance taxes are allowed as a deduction only to the Estate.

Eighteenth Amendment

Q. How long after thirty six states have voted for repeal of the eighteenth amendment will repeal become effective?

A. As soon as the ratifying Conventions of the thirty six states shall have concluded their work. There is a provision requiring the publication of such ratification by the Secretary of State, but such is not essential to render repeal effective. Most of the states who have voted for repeal have already ratified the vote, and repeal at a date very soon after November 7, 1933 is indicated.



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Court decisions

CHATTEL MORTGAGE. RECORD OF PRIOR CONDITIONAL SALES CONTRACT. FORECLOSURE SALE. RIGHTS OF PURCHASER. (N. J.)

Action in replevin. Plaintiff's title was predicated upon a purchase at a foreclosure sale. The car was sold to the plaintiff's husband, on March 31, 1928, under a conditional bill of sale. The chattel mortgage under which she purchased was subsequent thereto. The conditional sales agreement was recorded on April 19th, 1928, at eleven-twenty A. M., and the chattel mortgage went on at two twenty-five P. M. the same day. Section 5 of the Uniform Conditional Sales act declares that every provision in a conditional sale reserving property in the seller shall be void as to any purchaser from or creditor of the buyer, who, without notice of such provision, purchases the goods or acquires by attachment or levy a lien upon them, before the contract or a copy thereof has been filed, unless such contract or copy is so filed within ten days after the making of the conditional sale. 2 Cum. Supp. Comp. Stat., p. 3130.

Held that this section did not void the conditional sales agreement as against a purchaser under the chattel mortgage. The chattel mortgagee neither purchased the car nor acquired by attachment or levy a lien thereon before the conditional sales agreement went on record. A purchaser at a foreclosure sale under that mortgage could acquire no greater rights than the chattel mortgagee had. The prior filing of the conditional sales agreement was notice. Judgment for plaintiff reversed. *Manchest v. Long Island Finance Corp.* N. J. Supreme Ct. Decided August 16, 1933. Requisition No. 97376.

CONDITIONAL SALE OF MOTOR CAR. UNAUTHORIZED REMOVAL FROM STATE. RIGHTS OF PURCHASER IN GOOD FAITH. (COLO.)

The plaintiff in error American Equitable Assurance Company, as plaintiff, replevied an automobile from the defendant in error Hall Cadillac Company, as defendant. Judgment went in favor of the latter, and the former brings the case up for review. The automobile in question was sold by a dealer at Tacoma, Washington, to a purchaser under a so-called conditional sale contract. Thereafter the automobile was removed from Washington, contrary to the provisions of the contract. The plaintiff, as insurer, paid the dealer's assignee the amount of the loss sustained through the unauthorized removal, and received certain instruments of assignment. The defendant interposed two defenses. One involves the contention that the conditional sale contract is invalid and unenforceable against the defendant because the latter purchased the automobile at Denver in good faith for value and without notice from one having title thereto and rightful possession thereof. The other defense is that the defendant has repainted and reconditioned the automobile at an expense of labor and material amounting to a stated reasonable value.

Held that the court need not pass upon the latter. The amended reply and an amendment thereof charge the defendant with actual or constructive knowledge of the rights alleged by the plaintiff, and insist that a judgment for the defendant would be in contravention of the Constitution of the United States and the Constitution of Colorado, that it would constitute the taking of the plaintiff's property without due compensation, and that it would be a failure to give full faith and credit to the law of a sister State. The findings of the lower court, based upon conflicting evidence, were in favor of the defendant on all the issues. The lower court found that the defendant was a purchaser, for value and without notice, from one having title as well as lawful possession. On the authority of Turnbull v. Cole, 70 Colo. 364, followed in the recent case of Commercial Credit Company v. Higbee, (1933 CCH Page 18,070) the judgment of the court below must be affirmed, since it falls squarely within the principle laid down in those cases, namely, that a conditional sale contract, even though valid outside of Colorado, cannot be here asserted against one who, in good faith and without notice of a defect in the title, has purchased personal property covered thereby from one having open possession of the article or articles sold. Judgment affirmed. *American Equitable Assurance Co. v. Hall Cadillac Company.* Colo. Supreme Ct. Released September 6, 1933. Requisition No. 97346.

CONDITIONAL SALE IN NATURE OF CHATTEL MORTGAGE. SALE OF SPRINKLER SYSTEM. CONTRACT. CONSTRUCTION. (MICH.)

The United States Construction Company, Inc., installed a sprinkler system in the Grand Hotel under a conditional sales contract, termed a lease, and under which the lessees or vendees were to pay $13,000, annually, for seven years, and make an eighth payment of $10,000, and thereafter own the equipment upon payment of an additional $3,000. In case of default by the vendees, the vendor retained the right to retake the sprinkler system, without releasing the vendees from making the annual payments. The Mackinac Island Hotel Company, owner of the hotel, went into the hands of a receiver. The construction company demanded possession of the sprinkler system and, upon refusal by the receiver petitioned the court below for direction to the receiver to permit such retaking. The lower court found that the contract or lease was a conditional sale in the nature of a chattel mortgage and, not having been recorded, was void as to subsequent creditors of the hotel company. The question is whether the contract was a pure conditional sale or one in the nature of a chattel mortgage.

Held that, if under the contract, a vendor may retake the property and also hold the vendee to pay for the same, it is a conditional sale, in the nature of a chattel mortgage, and must be recorded in the proper office in order to foreclose subsequent creditors. The full purchase price, in order to pass title, was fixed at $104,000, and, under the contract, $101,000 of this was to be paid even if the sprinkler system was reclaimed by the vendor. The obligation to pay remained although the security was captured. Order affirmed. *Ballard v. Mackinac Island Hotel Co.* Mich. Supreme Ct. Decided October 2, 1933. Requisition No. 98071.

ORAL CONTRACT. DELIVERY OF GOODS. TITLE. ACTION FOR PURCHASE PRICE. STATUTE OF FRAUDS. UNIFORM SALES ACT. (MICH.)

Marshall, a farmer, sold a milk route and the equipment, consisting of a boiler, sterilizer, cream separator, and other articles to the defendant. This action was brought to recover the purchase price thereof. Plaintiff had judgment from which the defendant has appealed. The dispute arises over the price and the manner of payment. Marshall testified that he was to have $550, if paid in cash, or $600, if on terms. The defendant testified that $550 was agreed upon as the price, and that it was to be paid in monthly payments of $25 each. In answer to special questions the jury found that the sale was on such monthly payments. The trial court instructed the jury that if the contract price was as claimed by the defendant and to be paid in monthly payment,—"the contract having been completed with the exception of the agreed purchase price, the defendant is obligated to pay the value of the things sold to him by the plaintiff upon the theory of the quantum meruit or what the things are resonably worth not to exceed the purchase price fixed in the contract." This instruction was probably based upon the claim of the defendant that, the contract being an oral one and the last of such payments not to be made within one year, it was unenforceable under the statute of frauds. Under section 9442, 2 Comp. Laws 1929, of the "Uniform Sales Act," a contract for the sale of personal property may be made in writing, "or by word of mouth." Under section 9443 if the value be $100 or more, it is unenforceable, unless the buyer shall accept the goods sold, or a part of them, and actually receives the same. Both the title to the property sold and the possession thereof passed to the defendant. All that he promised to do was to pay money and there is no law requiring such a promise to be in writing to be enforceable.

Held that the right to recover on the quantum meruit is restricted to cases in which the contract is void under the statute, but has been fully executed by one party and the other has received the consideration and accepted the benefit. If, as claimed by the defendant, the purchase price was to be paid in monthly payments and the four payments were made thereon, there was nothing due plaintiff on the contract at the time the action was begun. Judgment reversed and a new trial granted. ***Winchester, Administrator v. Brown.*** Mich. Supreme Ct. Decided October 2, 1933.

CLAIM OF VOIDABLE PREFERENCE. PROOF. (ME.)

The action is by the trustee in bankruptcy of Ira C. Kates, for the benefit of the bankrupt estate, under subdivisions (a) and (b) of section 60 of the Bankruptcy Law of 1898, (30 U. S. Statutes at Large, 562), as most recently amended by the Act of June 25, 1910 (36 U. S. Statutes, 842), and appearing in 11 USCA, sec. 96. The suit is to recover preferential transfers.

Held that the plaintiff has the burden of proof and must establish, among other things, the insolvency of the debtor in the sense of the insufficiency of his property, at a fair valuation, to pay his debts. Ira C. Kates was a merchant who kept a store at Biddeford, Maine, and another at Dover, New Hampshire. Biddeford was the location of the defendant banking corporation which held Mr. Kates' promissory note for $1,500. It brought suit on the note and an attachment was made of the stock in trade, furniture and fixtures in the Biddeford store. The

debtor so requesting, the store remained open, under a keeper, that business might continue. The proceeds of sales were retained, in lieu of merchandise sold. When on March 9, 1932, Mr. Kates made an assignment of "both stores", the attachment was discharged. The sheriff accounted to the assignee for the sale of goods, the latter receiving $506.90. This the assignee turned over to the bank which credited the sum on the note. Next, the bank advanced money to pay the interest on a mortgage which Mr. Kates had given to a savings bank. April 23, 1932, the assignee sold the stock and fixtures in the Biddeford store for $600.00 which was paid to the defendant bank. The plaintiff offers no evidence that, at the time of any transaction, the aggregate of Mr. Kates' assets, taken at a fair valuation, was less than the aggregate of his liabilities. Judgment for defendant. *Keefe v. Pepperell Trust Co.* Me. Supreme Judicial Ct. Decided July 20, 1933.

AMENDMENT TO ACT, MARCH 3, 1933. CONSTRUCTION. (ILL.)

The single question raised on this appeal involves the construction of the amendment to the Bankruptcy Act, which became effective March 3, 1933. Appellant was adjudged a bankrupt August 24, 1932. An order was entered January 9, 1933, discharging him from his debts. The administration of his estate was not closed when the amendment to the Bankruptcy Act was enacted March 3, 1933. On April 11, 1933, he petitioned the court to vacate the order discharging him of his debts and also prayed for relief allowable under the amendment. Appellant argues that the provision of the amendment which reads (Sec. 2, Act of March 3, 1933, Ch. 204), "Proceedings under this Act may be taken in proceedings in bankruptcy which are pending on the effective date of this Act," applies to him. The District Court held that the petitions of the bankrupt do not come within Section 74, of the Bankruptcy Act, as amended, March 3, 1933.

Held that under the amendment on March 3, 1933, one whose estate is then administered in bankruptcy may, if the facts warrant it, seek and secure the relief provided for by the amendment. To limit the language of the amendment to instances where involuntary petitions had been filed in bankruptcy but wherein no adjudication had occurred would not only nullify its effect but would be contrary to the wording of the above-quoted provision and violative of the purpose of the legislation. Order reversed. *Grzenia v. Lucius et al.* U. S. C. C. A., 7th Cir. (Ill.) Decided July 27, 1933. Requisition No. 96167.

PETITION FOR EXTENSION OF TIME FOR PAYMENT OF DEBTS. MORTGAGE FORECLOSURE. INJUNCTION. (IDAHO).

The petitioner, a resident of Idaho engaged chiefly as housewife, files her petition under section 74 of the amendment to the National Bankruptcy Act approved March 3, 1933, stating that she is insolvent and desires an extension of time to pay her debts. The Amsterdam Savings Bank holds a mortgage in the sum of $3,000 against her real property situated in the State of New York. Petitioner prays for an order enjoining the bank from proceeding further in the foreclosure of the mortgage. The bank about May 20th, 1933, instituted the foreclosure action. The amended Act provides for the filing of such petition and grants power to the court to enjoin secured creditors who may be affected by the extension from proceeding in any court for the enforcement of their claims until the extension has been confirmed. Under an arrangement between the petitioner and the bank, the bank was authorized to rent and collect the rent of the premises and apply it upon its mortgage debt. It collected the sum of $145.50 as rental and has applied that amount upon its interest and taxes. At the present time the tenants are unable to pay the rent. There is a balance of $3093.60 due the bank upon the indebtedness of the petitioner. There will only accumulate in addition to the principal a sum covering the interest and taxes for the year 1933, which will not exceed the value of the property securing the same.

Held that the purpose of the amendment to the National Bankruptcy Law applies to such a case as this, and the prayer for a restraining order is granted. The Amsterdam Savings Bank is enjoined from further proceeding until the 1st day of December, 1933. *Matter of Aker.* U. S. Dist. Ct., Dist. of Idaho. Decided July 22, 1933.

DELIVERY OF MERCHANDISE. WHETHER CONSIGNMENT OR SALE. BANKRUPTCY. PRIORITY OF PAYMENT. (MO.)

Nichols Wire, Sheet and Hardware Company, being in receivership, the State of Michigan, operating under the name of Michigan State Industries, filed a claim based upon money due on a consignment of binding twine sent to the above company. There is no contest over the amount due. The entire controversy is over giving the claim priority of payment. Priority was urged upon the basis of an equitable lien upon the proceeds coming into the hands of the receiver because the claim arose from sale of consigned merchandise. The trial court awarded priority and from that order this appeal is brought. Prior to June, 1930, appellee had sold twine to the Nichols Company. In June, 1930, appellee entered into a verbal agreement with the president of the Nichols' Company to send further twine upon consignment, the company's compensation to consist of the difference between the price for which it must be responsible and the price at which it might sell, together with a five per cent discount upon monthly remittance. In accordance with this arangement, the company sent two orders to appellee. The twine was promptly shipped. The company sold the greater part of the consigned shipments before the receivership. The receiver has sold the remainder. The amount of the claim involved is the balance due upon the consigned twine. Appellant argues that, although the contract contemplated a consignment of the twine to the company, it also intended that relation to change upon the sale of the twine by the company, at which time the bailment was to become a debtor-creditor relation.

Held that the essential difference between a contract of sale and one of bailment is the locus of the title. This locus is tested not so much from the standpoint of the sender (bailor or seller) as from that of the receiver (bailee or buyer). The title may remain in the sender but if it is poised for flight into the receiver as soon as he pays the price, it is a sale, even though conditionally so. But if the title never passes into the receiver, then it cannot be a sale to him. Appellant argues that certain expressions on the invoices show appellant became a debtor upon sale of the twine to its customers. The statement in the invoices relied upon is "5 P C Monthly Remittances". But the invoice is not controlling where it is in performance of a contract previously made. Here there had been a verbal contract in pursuance of which the orders and invoices resulted, and the discount was to be effective only upon collections realized by the bankrupt and its purpose, evidently, is to encourage prompt collections and remittances. Appellant contends also that the statement on the invoices at least renders the contract ambiguous. The court doubts if such ambiguity exists but, even so, it has announced the rule of construction to be that where such a contract is ambiguous the doubt must be resolved in favor of the bailment. Appellees are entitled to priority because the contract was one of consignment. Order affirmed. *Dryden v. Michigan State Industries et al.* U. S. C. C. A., 8th Cir. (MO.) Decided July 20, 1933.

Canal-boat prosperity

(*Cont. from pg.* 42) ethics which governs members in their relations with each other and with other members of society, and a certain attitude toward their work held generally by the members of the group. This attitude is one of pride in the profession and a feeling of responsibility to society for good workmanship.

Cannot the credit men of the nation lead in bringing about the acceptance of such an attitude by business men generally? Credit men have or are accumulating such a body of knowledge about their work. They are developing codes of ethics to govern many phases of business relations. They are developing this attitude of mind which stresses the well-being of society as a whole, realizing that they have a responsibility to society as well as to their employers. The philosophy and the economics of the canal boat era are as outmoded now as that system of transportation. Prosperity cannot be brought back by the methods and policies which were feasible a century ago. A new philosophy and a new attitude are as essential as a New Deal. May the credit men of the nation lead the way!

Hundreds of years ago men began to talk about the good life. The Greeks who gave us the concept had scanty natural resources and a not wholly admirable social organization. Consequently they were able to realize the ideal of the good life only for the few at the expense of the many. In order that the citizen might have good homes, good food, a reasonable amount of leisure for the better things of life it was necessary to have many slaves spending their lives in drudgery and want. But we are in a far better situation. We have great natural resources. In a democratic society we need not condemn the many to a life of toil and deprivation in order to secure the good life for the few. In our industries we have thirty or forty mechanical slaves who will spend their lives drudging for us without a murmur. With the resources, the intelligence, and the ideals at our command we can have the good life not for a few only but for all in democratic America. God give us courage and wisdom to bring it to pass!